

**MONGOLIA EXTRACTIVE INDUSTRIES
TRANSPARENCY INITIATIVE (MEITI)**

**MONGOLIA TENTH EITI
REPORT 2015**



December 2016

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The Report and all appendices relating to the report are intended for the use of the National Council of the Mongolia Extractive Industries Transparency Initiative and the Multi-Stakeholder Working Group

Some information to be disclosed in accordance with EITI Requirements and Terms of Reference are appended to this report. Due to its large volume, some appendices are publicly available by uploading on website of EITI Governance Support Project as MS Excel format in order to be easy to use.

Appendix Numbers	Comment	Appendix Linkage
1, 4, 5, 6, 7, 8, 9, 10, 11a, 12, 13, 14, 15, 18, 19, 21, 21a, 21b, 22, 23, 26, 27a, 27b, 28, 29, 30, 31	These appendices will be printed out along with the report and will be uploaded on EIT Governance Support Project I website as well.	http://www.eitimongolia.mn/mn/reconciliation-report
2, 3, 11b, 11cb, 16a, 16b, 16c, 16d, 16e, 16f, 16g, 16h, 16i, 17, 20a, 20b, 24, 25	These appendices will only be uploaded on EITI Governance Support Project website.	http://www.eitimongolia.mn/mn/reconciliation-report

ABBREVIATIONS

bln	billion
BOD	Board of Directors
CPA	Certified Public Accountant
CIT	Corporate Income Ttax
DBM	Development Bank of Mongolia
EIA	Environmental Impact Assessment
FY	Fiscal year
GACT	General Authority of Customs and Tax
GoM	Government
GDP	Gross Domestic Product
SIP	Health and Social Insurance Premium
ha, hec	hectare
IT	Information Technology
IAS	International Accounting Standards
ISA	International Standards on Auditing
IFRS	International Standards on Financial Reporting
kg	kilogramme
Royalty fee	License fee for exploitation and exploration of mineral resources
LLC	Limited Liability Company
LDCF	Local Development Consolidated Fund
LDF	Local Development Fund
mln	million
MRPAM	Mineral Resources and Petroleum Authority
MRAM	Mineral Resources Authority of Mongolia
MRA	Mineral Resources Authority
MEGDT	Ministry of Environment, <i>Green Development and Tourism</i>
MoF	Ministry of Finance
MoL	Ministry of Labor
MoM	Ministry of Mining
MEITI	Mongolia Extractive Industry Transparency Initiative
MMC	Mongolian Mining Corporation
MNT	Mongolian Togrogs
MSWG	Multi-Stakeholder Working Group
MNAO	National Audit Office of Mongolia
NSC	National Statistical Committee
NGO	Non-governmental Organization
NEA	Nuclear Energy Agency
No	Number
OSF	Open Society Forum
OT	Oyu Tolgoi
PA	Petroleum Authority
PSA	Product Sharing Agreement
SSM	Small scale miner
SPIA	State Professional Inspection Agency
SPC	State Property Committee

SOE	State-Owned Entities
SBD	Sukhbaatar district
thous.ton	Thousand tonnes
UK	United Kingdom
UNDP	United Nations Development Programme
USD	United States Dollars
USA	United States of America
VAT	Value Added Tax

REPORTING INDEXATION

bln, 83, 92, 117	MRA, 16, 20, 21, 39
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CIT, 8	MRPAM, 13
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WGMEITI**

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November 18, 2016

Hart Nurse Ltd and Ulaanbaatar Audit Corporation were appointed by the Mongolia Extractive Industries Transparency Initiative Secretariat to undertake the eighth EITI Reconciliation for Mongolia, for 2015 and to prepare a Report on this Reconciliation (“Engagement”) and conducted the contract.

The audit reconciliation engagement for material revenue flow received by Government and paid by Mongolian mining, oil industries and exploration entities in 2015 carried out between 19 July 2016 and 18 November 2016.

We performed the reconciliation works as required in the Terms of Reference in line with ISRS 4400 (International Standards on Related Services), “Engagement to perform agreed-upon procedures regarding financial information”.

We report our findings in the accompanying report including its appendices. Because the procedures were not designed to constitute an audit or review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the transactions beyond the explicit statements set out in this report. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

Our report is for the purpose of informing the Multi-Stakeholder Working Group and National Council on the matters set out in the terms of reference.

This report relates only to the subject matter specifically set out herein and does not extend to any financial statements of any entity taken as a whole

**Hart Nurse Ltd
Chartered Accountant**

Ulaanbaatar Audit Corporation LLC

1 INTRODUCTION

1.1 INTRODUCTION

1.1.1 BACKGROUND

The Extractive Industries Transparency Initiative (EITI) is a global standard for improving transparency and accountability in the oil, gas and mining sectors. The Government of Mongolia announced the country's adoption of EITI in 2006. In follow-up actions, a National EITI Council and a stakeholders working group, comprised of representatives of the government, mining companies, and civil society, were established to implement EITI.

Since adopting EITI, Mongolia has produced nine EITI reports, and has appointed the consortium of Hart Group and Ulaanbaatar Audit as the Independent Administrator for the current (tenth) report.

The Principles and Requirements for EITI implementation were re-stated in the 2016 EITI Standard, which was formally launched at the EITI Global Conference in Lima 24-25 February 2016.

This 2016 EITI Standard encourages countries to make use of existing reporting systems for EITI data collection and make the results transparent at source. It requires that the identity of those that own and profit from extractive activities should now be disclosed: all countries must ensure that the companies that bid for, operate or invest in extractive projects declare who their beneficial owners are. The requirement will take effect as of 1 January 2020

The EITI's quality assurance mechanism, Validation, which checks whether countries are adhering to the EITI Requirements, has also been refined in the 2016 EITI Standard. Although the bar for achieving compliance has not changed, the assessment will to a greater extent take into account the diversity in implementing country membership, recognize efforts to go beyond the minimum requirements and incentivize continuous improvements in implementation. Mongolia is currently going through the process of EITI Validation.

Other features of the 2016 Standard are a greater focus on ensuring that recommendations from EITI Reports are considered and followed up by governments and multi-stakeholder groups so that necessary reforms in sector management take place, as well as other minor revisions aimed at clarifying ambiguities and addressing inconsistencies.

The current EITI report is the first to be produced by Mongolia under the EITI 2016 Standard.

1.1.2 INDEPENDENT ADMINISTRATOR'S ROLE

The Independent Administrator's role for the tenth Mongolia EITI Report is set out in the Terms of Reference. The principal elements are to:-

- Examine and comment on the scope proposed by the MSG for the reconciliation and report
- Prepare data collection templates to gather the information for the report, and distribute to the government and private entities required to report, as decided by the MSG
- Collect information from reporting entities, using the E-reporting system, data collection templates and other appropriate means
- Compare the information received and reconcile it as far as possible
- Comment on the comprehensiveness of the financial data reported and, as necessary, make recommendations for strengthening the reporting process in future

- Prepare a report to be published by the MSG containing a reconciliation of the reported revenues and payments, and other information related to the extractive industries in Mongolia

Our report is for the purpose of informing the Multi-Stakeholder Working Group and the National Council on the matters set out in the terms of reference.

This report is prepared both in English and Mongolian languages. If there should be any discrepancies or contradictions between the English and the Mongolian version, the English version will prevail.

1.2 PARTICIPANTS

Participants in the reconciliation comprised

- government entities, both national and sub national, which receive material revenue flows from extractive industry companies
- government departments and agencies with responsibility for oversight, regulation and reporting for the extractive sector (see Section 3.6)
- state owned enterprises operating in the extractive sector (see Section 3.7)
- extractive industry companies making material payments to government, as defined by the scoping decision (see Section 4)

The participating government entities and companies are detailed in Section 4.3 and Appendix 1.

1.3 ACKNOWLEDGEMENTS

The consortium of Hart Nurse Ltd and Ulaanbaatar Audit Corporation LLC would like to express sincere thanks to the team of the MEITI Secretariat, led by Mr. Tsolmon Sh, for supporting and assisting us with organisation of meetings with major officials from the government and its various organisations and agencies, as well as with extractive companies; and for sending and receiving official confirmation letters to/from these parties, and for assistance with other procedures.

2 EXECUTIVE SUMMARY

2.1 SECTOR OVERVIEW

The extractive sector is a major part of the economy of Mongolia, and in 2015 it represented 16.7% of GDP and earned USD 4.1 billion in exports, some 88% of total exports for the year.

The government obtains a significant proportion of its income from extractive companies, and in 2015 received MNT 1,422 billion (approximately USD 750 million) from the sector. It also participates directly in extractive activities through shareholdings in mining companies, especially the wholly owned Erdenes Mongol and its subsidiaries and a 34% shareholding in the Oyu Tolgoi gold-copper mine.

2.2 EITI PARTICIPATION

The Government of Mongolia committed to implement EITI in December 2005 and was admitted as EITI Candidate on 27 September 2007, and after successful Validation of its implementation, the country achieved compliance on 19th October 2010.

Since being admitted to EITI, Mongolia has produced nine reports; this current report is the tenth EITI Report, and is the first to be produced under the new 2016 EITI Standard.

Mongolia is currently undergoing its second EITI Validation, the periodic assessment of whether EITI implementation in Mongolia is consistent with the provisions of the EITI Standard.

2.3 SCOPE OF THE REPORT

The report contains information on a range of topics concerned with the mining, oil and gas sector, including

- the economic contribution
- production and exports
- state participation in the extractive sector
- licensing and contract transparency
- an overview of mineral and oil resources
- social expenditures and rehabilitation activity
- company ownership

On this last topic, Mongolia EITI is already examining how it will comply with the EITI Requirement that beneficial ownership information be disclosed by all extractive companies from 1st January 2020; and for this report, companies were requested to disclose certain information in respect of their ownership.

202 companies (including 10 SOEs) were selected by the MEITI Working Group to report their payments to national and sub-national government; and 31 government entities (including 21 sub national government entities) reported their receipts from these companies.

The receipts and payments were compared and reconciled, and the detailed results are set out in this report and its appendices 9 and 10.

2.4 TOTAL GOVERNMENT RECEIPTS

2.4.1 GOVERNMENT RECEIPTS IN 2015 FROM THE ENTIRE SECTOR

The government reports receipts from all extractive companies on the MEITI E-reporting system. After excluding non-extractive companies identified during our work in the Inception phase, total receipts for the extractive sector, including companies not participating in the EITI reconciliation, were reported by government as follows:-

Government entity MNT million	Government receipts - all extractive companies
General Department of Taxation and Customs	936,669
Petroleum Authority of Mongolia	195,160
Social Insurance General Office	127,637
State Property Committee (Office)	0
Mineral Resources Authority of Mongolia	36,975
Ministry of Labour	16,556
Ministry of Environment and Tourism	480
Sub-total: National level	1,313,479
Aimags	108,022
Ulaanbaatar districts	692
Sub-total: Local level	108,714
Total	1,422,192

Details of total revenues received from each benefit stream within the agreed scope of this EITI Report, including revenues that fall below agreed materiality thresholds¹ are shown in Appendix 6.

2.4.2 GOVERNMENT RECEIPTS WITHIN THE RECONCILIATION SCOPE

2.4.2.1 Receipts within scope before and after reconciliation

The scope of the reconciliation includes all the revenue flow types reported on the MEITI E-reporting system, but limited to flows from 192 companies and 10 SOEs. The receipts from these companies and SOEs reported by government are summarised in the table which follows:-

Government entity MNT million	Initially reported revenue receipts	Receipts after reconciliation	%age change
General Department of Taxation and Customs	1,034,416	931,609	-11%
Petroleum Authority of Mongolia	187,039	195,110	4%
Social Insurance General Office	118,769	119,454	1%
Mineral Resources Authority of Mongolia	24,166	24,315	1%
Ministry of Labor	0	16,556	100%
Ministry of Environment and Tourism	0	480	100%
Sub-total: National level	1,364,391	1,287,526	-6%
Aimags	72,933	105,486	31%
Ulaanbaatar districts	703	553	-27%
Sub-total: Local level	73,635	106,039	31%
Total	1,438,027	1,393,565	-3%

¹ as required by the 2016 EITI Standard, Requirement 4.1.d

Initially reported revenue streams are those reported by government entities on the MEITI E-reporting system before any reconciliation work was undertaken. The revenue streams after reconciliation are the adjusted amounts following the reconciliation carried out by the Independent Administrator.

The increase in receipts of the Petroleum Authority of Mongolia and aimags arose because amounts omitted in the initial government reported information were identified through the reconciliation process. The decrease in General Department of Taxation and Customs receipts was mainly because of Government receipts from Oyu Tolgoi for CIT and fees for exploitation and exploration of mineral resources totalling MNT 92.5 billion. However, these amounts were paid and received in 2014.

2.4.3 RECONCILIATION COVERAGE

Reconciled government receipts amounted to MNT1.39 trillion, which represents 97.9% of total flows reported by government from the extractive sector (MNT 1.42 trillion).

2.4.4 COMPARISON OF RECONCILED GOVERNMENT AND COMPANY FLOWS

The results of the reconciliation are summarised in the table below.

Adjusted total flows reported		Discrepancies
Government	Companies	
MNT million	MNT million	MNT million
1,393,565	1,392,037	1,528
Receipts reported by government from companies which did not report		(1,640)
Unexplained discrepancies		
Government receipts higher than company payments		(168)
Government receipts lower than company payments		56
Net unexplained discrepancies		(112)

8 companies out of the 202 companies selected by the Working Group for reconciliation made no report either on the MEITI E-reporting system or on the templates distributed by the Independent Administrator².

2.5 COMPLETENESS AND ACCURACY OF DATA AND ASSURANCE

2.5.1 GOVERNMENT

2.5.1.1 Use of MEITI E-reporting system

At the date of determination of the scope (19th July 2016) two government entities had not reported on the MEITI E-reporting system. These were the Ministry of Labour and the Ministry of Environment and Tourism.

2.5.1.2 Management assurance

We have requested following 10 government entities Management representation letter to assure the fairness and accuracy of their provided information; however 4 of them provided the letter and other 6 entities have not provided.

² See further section 5.2.3

#	Government entities	Information on initial reconciliation discrepancies	Explanation on initial reconciliation discrepancies	Management representation letter
1	Mineral Resources and Petroleum Authority of Mongolia	o	√	√
2	Ministry of Environment and Tourism	o	√	x
3	Customs Office	o	√	x
4	Ministry of Finance	o	√	x
5	Ministry of Labour and Social Welfare	o	√	x
6	State General Office for Social Insurance	o	√	√
7	State Property Policy Regulatory Authority	√	√	x
8	Ministry of Mining	-	-	√
9	Ministry of Road and Transportation	o	√	x
10	Mongolian Tax Agency	o	√	√

- Not applicable

o Received excel files, no signed document

√ Received signed document

x Not received

It was a requirement of the Mongolia EITI Working Group that adequate assurance over the data reported for the EITI reconciliation would only be provided by confirmation of the government and company entities by means of written representation from senior management of reporting entities in a prescribed format.

Six of the reporting government entities are not in compliance with this requirement.

2.5.1.3 Six of the reporting government entities are not in compliance with this requirement. Audit assurance

Government entities did not provide any assurance from the National Audit Office on the figures reported for EITI. In order for such assurance to be given for the next report (covering 2016), discussions with the MNAO must be concluded before its 2017 work plan is finalised and approved by the Standing Committee of Budget under Mongolian Parliament. This work plan is currently being finalised, and discussions would need to be concluded quickly.

Upon reviewing the government accounts for 2015, we observe that the MNAO has qualified its opinion on them on five counts. One of the qualifications relates to the incorrect accounting for a sum of MNT 123 billion by Erdenes Mongol in 2014, which is a large discrepancy, although not material to the overall government accounts.

2.5.2 STATE OWNED ENTERPRISES

Provision of the information required by the MEITI Working Group and use of the E-reporting system is an important part of demonstrating the government's commitment to a comprehensive EITI reporting process.

2.5.2.1 Use of MEITI E-reporting system

At the date of determination of the scope (19th July 2016), a number of SOEs had not reported on the MEITI E-reporting system. These were

- Erdenes Mongol LLC
- Erdenes Tavantolgoi JSC
- Darkhan Metallurgical Plant LLC
- Tavantolgoi JSC
- Baganuur JSC

2.5.2.2 Management assurance

1 SOE (Erdenes Mongol LLC) has not provided a letter of assurance from management.

2.5.2.3 Audit assurance

3 SOEs provided a letter from their auditor that the information supplied for the EITI report was consistent with their financial statements, which had been audited under International Standards on Auditing, and were true and correct.

These companies were:-

- Bayan Teeg LLC
- Tavan tolgoi LLC
- Darkhanii Tumurlugiin Uildver LLC

The remaining SOEs did not provide a letter from their auditors

2.5.2.4 Provision of audited financial statements

Four SOEs did not comply with the Working group's requirement to submit audited financial statements:-

- Tavantolgoi LLC
- Mogoin gol JSC
- Darkhanii Tumurlugiin Uildver LLC
- Erdenes Tavan Tolgoi JSC

Upon reviewing financial statements received, we observed that the audit opinions were in several cases qualified. The matters referred to by the independent auditor include accounting differences, the ability of the SOE to continue as a going concern, and the absence of an up to date assessment of rehabilitation provisions.

Rehabilitation of the environment during and after extraction activities is part of a company's good citizen responsibilities and we recommend that the Working Group and National Council should engage with the Mineral Resources Authority to ensure that SOEs have in place an appropriate and complete rehabilitation plan, fully costed, and that their future financial statements include rehabilitation costs in accordance with the relevant International Financial Reporting Standards.

The disclosure of accounting differences resulting from an independent audit suggests the need to strengthen the financial management of the SOEs.

2.5.3 PRIVATE COMPANIES

2.5.3.1 *Use of MEITI E-reporting system*

Of the 192 companies (excluding SOEs) included in the reconciliation, 115 companies reported payments using the E-reporting system. 76 companies failed to use the MEITI E-reporting system, and data was collected using the approved templates.

Further engagement is required with the extractive companies to emphasise the requirement to use the system and to establish whether there are practical difficulties (e.g. in meeting the input deadlines) and how these may be overcome.

2.5.3.2 *Management assurance*

Of the 192 companies (excluding SOEs) included in report, 45 were non-compliant with the procedure determined by the Working Group and did not return a signed management assurance.

2.5.3.3 *Audit assurance*

In addition, all companies (excluding SOEs) were asked to provide a confirmation from their auditor. 94 companies provided a letter from their auditor confirming that the information supplied for the EITI report was consistent with their financial statements, which had been audited under International Standards on Auditing, and were true and correct.

This is a marked improvement on the previous report, when no companies provided such a letter.

2.5.3.4 *Provision of audited financial statements*

71 out of 192 companies provided a copy of their audited financial statements. One audit report was qualified, the remainder were unqualified.

The objective of requesting audited financial statements is to be able to confirm the assurance environment in the reporting companies. There needs to be further engagement with companies to improve compliance with this requirement.

2.5.4 SUMMARY

In the absence of any management representation letters from a number of government entities, there is limited assurance over the government figures reported. The Independent Administrator does not audit the figures presented and relies on assurance from reporting entities.

Management assurances were received from all but one SOE, but the audit qualifications on SOE accounts received indicate that there may be room for improvement in reporting from certain SOEs. We were not able to review the financial statements of 4 SOEs.

76% of companies gave a management assurance letter, and 49% provided a letter from their auditor. Nearly all the financial statements we saw (from 37% of reporting companies) had unqualified audit reports. There remains room for significant improvement to improve the level of assurance generally on company figures, and for the current report, there are some gaps in the assurance information provided by the largest companies.

Company Name	Audit Report	Audit letter	Management representation letter	Payments reported (MNT bn)	Rank	%age of total payments
Oyu Tolgoi LLC	✓	×	✓	515.2	1	37.0%
Erdenet Mining Corporation LLC	✓	×	✓	358.3	2	25.7%
Petrochina Daqing Tamtsag LLC	✓	×	✓	189.6	3	13.6%
Mongolyn Alt MAK LLC	×	×	✓	48.2	4	3.5%
Energy Resources LLC	✓	✓	✓	39.7	5	2.9%
Tsairtmineral LLC	✓	✓	✓	34.8	6	2.5%
Dongsheng Petroleum Mongolia LLC	✓	✓	✓	14.4	7	1.0%
Boldtumur Yuroo gol LLC	×	×	✓	14.0	8	1.0%
Baganuur LLC	✓	✓	✓	10.4	9	0.7%
Southgobi Sands LLC	✓	✓	✓	10.4	10	0.7%

2.6 KEY FINDINGS

2.6.1 COAL SALES

One of the important transactions carried out by the state owned coal producers is to provide the state owned power plants with sufficient fuel to generate electricity. Using information provided by the SOEs and statistics from MRAM, we summarised the revenues and volumes for 2015 in the table which follows:-

#	Power Plant Name	Supplies... % of coal demand	Supplied coal					Average price per 1 ton of thermal coal /international market/
			thousand tonnes	Million MNT	Average price per 1 ton of coal MNT	Cost per 1 ton of coal	Average price per 1 ton of coal USD	
Baganuur JSC							\$ 13.24	\$ 38.12
1	Ulaanbaatar Thermal Power Plant No. 4	60%	1,635	43,467	26,588	29,300		
2	Ulaanbaatar Thermal Power Plant No. 3	100%	1,267	33,542	26,480			
3	Ulaanbaatar Thermal Power Plant No. 2	100%	225	5,684	25,321			
4	Darkhan Thermal Power Plant	60%	108	2,697	25,069			
5	Amgalan Thermal Power Plant	100%	39	1,037	26,590			
6	Baganuur Thermal Power Plant	100%	59	1,618	27,612			
Shivee-Ovoo JSC								
1	Ulaanbaatar Thermal Power Plant No. 4	40%	1700	35,802	21,060	21,551		
Shariin Gol JSC								
1	Darkhan Thermal Power Plant		273	7,664	28,093			
2	Erdenet Thermal Power Plant		286	8,026	28,037			

The average price for thermal coal on the international market is taken from the MRAM Statistics for 2015.

2.6.2 PRODUCTION SHARING AGREEMENT (PSA) AND LICENCE INFORMATION

2.6.2.1 PSAs

We were unable to find a way to obtain public access to PSAs concluded in 2015, and accordingly requested a copy of all PSAs concluded in 2015.

In accordance with a letter from the Minister to the Independent Administrator in connection with the 2013 EITI Report, and subsequent legislation in 2014, it is our understanding that these documents should be publicly available.

MRPAM noted in its response letter that “As a party of PSA, MRPAM will disclose the PSA once the contractor company agrees to disclose it”. Thus, as an Independent Administrator, the consortium requested copy of PSA which entered in 2015 from “Renova Ilch” LLC. At the date of writing, we have not received copies of these PSAs.

2.6.2.2 Mining licences

MRAM provided a list of licences in issue at 31st December 2015 (included as Appendix 16a&b). This list contains the date of award of the licences, so using this information it is possible to view the licences awarded in 2015.

MRAM also provided two summaries of licence movements:-

- i. a summary of the number of licences in issue at the end of each year from 2010 to 2015
- ii. an analysis of the movement on exploration and exploitation licences during 2015, showing awards, terminations, transfers, and other changes

The numbers of licences in issue and awarded in 2015 differ between these three documents and MRAM was unable to explain where the differences arise.

2.6.3 NON REPORTING COMPANIES

8 companies did not provide figures on the MEITI E-reporting system or using the reporting templates we sent them. The government reported receipts amounting to MNT 1.64 billion, which is not financially material for the reconciliation. Nevertheless, the MEITI Working Group determined that the inclusion of these companies was necessary for a comprehensive report, and we recommend that the Working Group or National Council take any necessary action to ensure that all companies participate in the EITI reconciliation, if included within the scope.

3 THE EXTRACTIVE INDUSTRIES IN MONGOLIA

According to Section 9.1.11 of the Minerals Law, the Government is permitted to allocate mineral licences over an area not exceeding 19.9% of total Mongolian territory. At the end of the first quarter 2016, licences had been awarded over 9.5% of Mongolian land.

The mining sector made a substantial contribution to the Mongolian budget: on average over the last three years, the sector provided 52% of its tax revenues, 78.4% of export revenues and produced 30% of the Gross Domestic Products (GDP) and 70% of total products of the industrial sector.

Tax revenues represented 26% of budget revenue in 2014 and 20.1% in 2015, showing the importance of the sector as the significant driving force for state economy and one of the major supporting sources for human development and satisfaction of other demands of community growth.

Furthermore, investment in the mining sector constitutes 71% of the total direct foreign investment, in comparison to the construction sector (8%), banking and financial sector (3%) and the railway sector (3%).

3.1 LEGAL FRAMEWORK AND FISCAL REGIME

3.1.1 LEGAL FRAMEWORK AND FISCAL REGIME (REQUIREMENT 2.1)

This section contains an overview of the main legislation applying to the extractive industries in Mongolia and the fiscal regime. It also includes an outline of the action plan of the Mongolian government for 2016-2020, and a summary of the work undertaken on mining licences following the adoption of the 2015 amendment to the Minerals Law.

3.1.1.1 Laws governing Extractive Industries in Mongolia

Currently, the mining sector is regulated by approximately 30 laws and more than 40 procedures and instructions. The earliest legal document of this sector was 'The procedure to regulate the various types of deposits' which was confirmed by Bogd Khan in 1913 and the most modern legal document is the Minerals Law, which was amended and updated by Mongolian Parliament ('State Great Assembly') in 2015. Since the renewal and enactment of the Minerals Law in 2006, it has been amended and changed eighteen times date.

Main laws

- The Minerals Law, 2006
- The Amendments to the Minerals Law, 2015
- The Law on Company Licences, 2001
- The Petroleum Law, 2014
- The Law on Prohibiting Mineral Exploration and Production Near Water Sources, Protected Areas and Forests, 2009
- The Amendment to the Law on Rule for the Compliance of the Law on Prohibiting Mineral Exploration and Production Near Water Sources, Protected Areas and Forests, 2015
- The Law on Nuclear Energy, 2009
- The Law on minerals with common occurrences
- The Audit Law, 1997, 2015

- The Accounting Law, 2001, 2015
- The General Tax Law, 2008

Other legislation

- The Petroleum Products Law, 2005
- The Law on Water Pollution Fee, 2012
- The Law on the Prevention of Conflict of Interest and the Regulation of Public and Private Interests in the Public Services, 2012
- The Investment Law, 2013
- The Law on Economic Entity and Organisation Income Tax, 2006
- The Law on Air Pollution Payments, 2010
- The Law on Environmental Protection, 1995
- The Law on Environmental Impact Assessment, 2012
- The Law on Natural Resource Use Fee, 2012
- The Law on Customs Tariff and Customs Duty, 2008
- The Law on Exemption Of Customs Duty, 2008
- The Law on Exemption Of Customs Duty and Value Added Tax, 2012
- The Underground Resource Law, 1988
- The Land Law, 2002
- The Law on Land Fees, 1997
- The Law on Value Added Tax, 2006, 2015
- The Law on Forest, 2012
- The Immovable Property Taxation Law, 2000

There was no relevant new legislation introduced in 2015, but The Law on Future Heritage Fund is being introduced in 2016.

The following sections give a short overview of the main laws.

3.1.1.2 Minerals Law, 2006

The current Minerals law was enacted by Mongolian Government on July, 2006 to regulate the relations respective to exploration, prospecting and mining of minerals except water, petroleum, natural gas, radio-active minerals and minerals with common occurrences.

3.1.1.2.1 Amendments to the Minerals Law 2015

The following are the most important additions and changes to the Minerals Law in effect with Amendment Law:

- Restoration of issuance of new minerals exploration licences and certain new requirements for minerals exploration licences
- Licence requirements for the exploration of non-ferrous metals and precious stones: the exploration and collection of non-ferrous metals and precious stones will now require a licence similar to that of other common minerals.
- A penalty will be payable for unpaid minerals licence fee
- Prioritisation for local legal entities

In addition to giving priority for purchases to legal entities registered in Mongolia that can provide the goods, works or services and meet the necessary standards, a minerals licence

holder must give first priority of supply of the mined, concentrated and semi-manufactured products to the manufacturing industry that operates in the territory of Mongolia at a market price.

3.1.1.2.2 New implementing regulations

As required by the Amendment Law, various implementing regulations (procedures) will be passed by the Ministry of Minerals, including procedures as set out below:

- establishing an ad-hoc council composed of investors, professional associations, NGOs and members of the public with equal representation to advise and support the implementation of the State Minerals Policy
- establishing rehabilitation and closure of a mine and mining concentrator jointly with the Ministry of Nature and Environment;
- establishing an informational data base in the fields of geology, mining and minerals;
- for NGO's to authorise specialised professionals and experts in the field of geology and mining;
- to inform the public the minerals resources and reserves and the results of exploration activities, through cooperation with NGOs specialised in the fields of geology and mining that are recognised locally and internationally.
- Clearer, extended deadlines for periodical reports and plans
- An increase in monetary liability for breach of Minerals Law
- More power vested to the government organisations in charge of minerals matters
 - The right of Government to introduce a new strategic deposit to Parliament for approval was widened by the right of Government to suggest the removal of a strategic deposit to the Parliament for approval;
 - The Government's power regarding mineral issues is increased and now includes the authority to establish a national geology agency and to maintain the boundaries of deposits with strategic importance;
 - The power of the Ministry of Mining is increased and now includes the authority to enact several new implementing regulations to regulate the mining operation as well as the classification and guidance of mineral resources and deposit reserves; and
 - The MRAM's power is increased and now includes the authority to maintain a registry of information of licence holders listed on the Mongolian Stock Exchange and the authority to define the areas open for mineral exploration licence by GPS coordinates.
- Specialised professionals and authorised organisations are authorised to execute an integrated report on the result of exploration work, a feasibility study for a mineral deposit and its due diligence.
- The establishment of a national geology agency and the MRAM will assign the following functions to it:
 - conduct of geological, geophysical, geochemical, hydro-geological, geo-ecological, cartographic activities, as well as exploration and research within the territory of Mongolia;
 - conduct of research on patterns of mineral occurrences and mineralogy within the territory of Mongolia, and to assess the future prospects of minerals;
 - creation of and support for an informational database of geology, mining and minerals, (unless classified as confidential) for interested individuals; and
 - maintenance of an integrated national registry of minerals and registration of changes in reserves.

At the same time as the Amendment was introduced, the Parliament of Mongolia enacted the long-anticipated "Law of Mongolia on the Repeal of the Law on Prohibition of Granting Exploration Licences" (the "Prohibition Repeal Law"). The Law on Prohibition of Granting Exploration Licences (the "Prohibition Law"), which had been in effect since 12 January 2012, imposed a moratorium on the issuance of exploration licences. The Prohibition Law itself was the last in a long series of interim moratoria that the Parliament of Mongolia had been issuing since 17 June 2010.

The Prohibition Repeal Law sent a message to the business community that the Government of Mongolia had started adoption of progressive measures to use the country's natural resources to improve the troubled economy.

3.1.1.3 Company Licences Law, 2001

In order to determine the process to apply for a mining and exploration licence and regulate the respective relations Mongolian Parliament enacted the Law to allocate licences on February, 2001. The following clauses related to the mining sector were included to this Law:

- A mining and exploration licence allocated by the Mineral Resources Authority (MRA) shall be confirmed by a Governor of the province related to that licence.
- This law determined the duties and responsibilities of the local governing organizations, self-governing organizations and the duties of the State Special Inspection Agency to monitor operations of the mining licence holders.
- A mining and exploration licence must be allocated only for limited liability companies and share-holding companies established according to Mongolian legislation. It is not allowed to register the citizens of Mongolia and foreign citizens as a holder of minerals licence.

The Law on Entrepreneur Licences has been edited four times in 2015 and these amendments and changes do not relate to the mining sector.

3.1.1.4 Petroleum Law, 2014

On July 1, 2014 the Mongolian Parliament enacted legislation previously considered in draft form:

- the newly edited Petroleum Law,
- a law to repeal the previous Petroleum Law; and
- laws to change and amend other respective laws which were proposed on May 23, 2014 by Mongolian Government.

The new Petroleum Law consists of 9 Chapters and 45 Articles and replaces the previous Petroleum Law, which was enacted in 1991. The Mongolian Parliament enacted a formal State Policy for development of the Mongolian mining sector. In addition, it needed to fully revise and change the Petroleum Law, in order to clarify understandings about petroleum, natural gas, unconventional petroleum, to clarify the rights and duties of the state organisations, local governing organisations, to determine percentage of taxes and royalty, how to impose, alleviate, exempt, allocate, suspend, revoke licences and to accurately regulate the relations respective to petroleum exploration, prospecting and mining operations.

The Petroleum Law was enacted with nine chapters and the aim of this law is to regulate matters pertaining to petroleum and unconventional petroleum prospecting, exploration and exploitation within the territory of Mongolia.

The newly revised edition of Petroleum Law permitted for legal entities to sign agreements with government organizations and conduct prospecting operations of conventional and unconventional petroleum, conduct prospecting of conventional and unconventional petroleum in the areas which

have been included to the areas kept for State and local special needs except the Specially protected areas of State and carry out only drilling during exploration of flammable shale.

Furthermore, the classifications of petroleum mining and exploration licences were created and these licences will be allocated by the state central organization in charge of petroleum issues which is capable to organize open bidding for exploration and mining areas. A licence holder will have the rights to sign a Product Sharing Agreement (PSA) of petroleum and a model of this Agreement will be approved by Government.

The legal environment was created to distribute the particular amounts of tax revenues payable by petroleum sector to state budget to share with budgets of provinces, capital city, districts and villages. It will increase a revenue amount of these actions for local organizations and citizens stimulating their participation.

An amount of petroleum royalties and payments for licences, principle to distribute these assets, methods to estimate petroleum for expenses were settled by this law.

This law provides the detailed clarification of the duties of a petroleum licence holder related to environment, employment, operational safety, submission of reports, data and discipline measures to impose for violation are clearly determined.

In addition, the legal basis was created to settle a dispute related to overlapping of the areas with exploration and mining licences and a licence holders were allowed to settle their issues themselves entering into agreements in case if exploration and mining operations of crude oil, natural gas, unconventional petroleum and other minerals will overlap and avoid disturbance of each other during their operations.

Furthermore, the rights, duties and participation of local governing organizations related to the sector of conventional and unconventional petroleum were clarified and allowed to Governors of villages or districts to sign a Collaboration Agreements with contractors and provided an opportunity for a company to implement its social responsibility reflected to the legal regulation.

Another special regulation of this law is the requirement for an authorized audit organization to carry out the audit of the financial statements and investment reports of contractors and confirm during regular periods, not increase the amounts of payments, costs and product sharing percentages determined by the respective agreements which have been signed according to the previous Petroleum Law that was enacted on January 18, 1991. If any agreement did not specify an amount of royalties then the respective government organization is allowed to negotiate and settle an amount of royalties with contractors.

This new Law clarified the legal environment of conventional and unconventional petroleum, improved the regulations related to the rights and duties of the state organizations, local governing organizations in petroleum sector, determined percentage of petroleum taxes, royalty, percentage of licences payments and improved the regulations how to impose, alleviate, exempt, allocate, suspend, revoke licences and monitor a petroleum exploration, prospecting and mining operations.

This new regulation is expected to create the positive subsequent results for community and economy as to contribute to procurement of raw materials for the petroleum processing factory to be constructed in Mongolia from domestic sources, end a dependency on importing petroleum, increase export, increase the reserve of foreign currencies and increase work places.

By keeping the conditions stable for taxes which were followed during establishment of PSA after the changes and amendments to the General Taxation Law were approved and it is expected that the favourable legal environment for investment will be created.

3.1.1.5 The Law on Prohibiting Mineral Exploration and Extraction near Water Sources, Protected Areas and Forests, 2009

The Law on Prohibiting Mineral Exploration and Extraction near Water Sources, Protected Areas and Forests was enacted on July 16, 2009.

3.1.1.6 The Amendment to the Law on the Procedure for Compliance of the Law on Prohibiting Mineral Exploration and Production near Water Sources, Protected Areas and Forests, 2015

The Law on the Procedure to follow and implement the Law on Prohibiting Mineral Exploration and Extraction near Water Sources, Protected Areas and Forests was renewed and enacted on February 18, 2015 by united assembly of Mongolian Parliament.

The following Resolutions and decisions of Mongolian Government have been issued in respect to an implementation of this Law.

Government Resolutions		Date	Note
Government No.174	Resolution	June 8, 2011	For the areas allocated by the licences of earth deposits of gold 'The partially-determined boundaries of the areas where were prohibited the mineral exploration and extraction near water sources, protected areas and forests' were approved by the Annexes. The changes were resolved by the Resolution 260 issued in 2014 by Mongolian Government and by the Resolution 130 issued in 2015 by Government.
Government No.194	Resolution	June 5, 2012	'The boundaries of the areas where water sources are created on Mongolian territory' were approved by an Annex 1, 'The boundaries of the areas with water funds' were approved by an Annex 2 and 'The boundaries of the areas with forest funds' were approved by an Annex 3. The changes were resolved by the Resolution 260 and 281 issued in 2014 by Mongolian Government and by the Resolution 130 issued in 2015 by Government.
Government No.260	Resolution	August 14, 2014	'The partially-determined boundaries of the areas where were prohibited the mineral exploration and extraction near water sources, protected areas and forests' which were approved by an Annex of the Resolution 174 of Mongolian Government were changed.
Government No.130	Resolution	April 6, 2015	'The partially-determined boundaries of the areas where were prohibited the mineral exploration and extraction near water sources, protected areas and forests' which were approved by an Annex of the Resolution 174 of Mongolian Government were changed.
Government No.120	Resolution	March 3, 2015	'The Procedure to revoke the licences which involved the areas where were prohibited the mineral exploration and extraction near water sources, protected areas and forests, take measures for the prohibited areas where the mining operations commenced and to ensure a reclamation' was approved by an Annex 1, 'The sample Agreement to take measures for the prohibited areas where the mining operations commenced and to ensure a reclamation' was approved by an Annex 2.
Government No.289	Resolution	July 7, 2015	'The Changes to the coordinates of boundaries of the areas where water sources are created' that was approved by an Annex 1 of the Resolution 194 issued by Mongolian Government in 2012, 'The Changes to the coordinates of boundaries of the areas with forest funds' was approved by an Annex 2 of this Resolution 194. Following this Resolution, the Resolution 174 of Mongolian Government 'To partially determine the boundaries' and the Annex 2 of the Resolution 194 'To determine boundaries' were revoked.
Government No.302	Resolution	July 20, 2015	'The Changes to the coordinates of boundaries of the areas where water sources are created' that was approved by an Annex 1 of the Resolution 194 issued by Mongolian Government in 2012, 'The Changes to the coordinates of boundaries of the areas with forest funds' was approved

				by an Annex 2, <i>'The points to the coordinates of the protective zones with water funds'</i> was approved by an Annex 3 of this Resolution 194.
Government No.155	Resolution	March 2016	14,	<i>'The Changes to the coordinates of boundaries of the areas where water sources are created'</i> that was approved by an Annex 1 of the Resolution 194 issued by Mongolian Government in 2012, <i>'The Changes to the coordinates of boundaries of the areas with forest funds'</i> was approved by an Annex 2 of this Resolution 194.

During implementation of this Law the following Working Groups were established and appointed:

- *'Working Group to increase gold extraction'* (Resolution 59) issued by the Ministry of Mining in 2015,
- *'Working Group to implement the Law on Procedure to implement the Law on Prohibiting Mineral Exploration and Extraction near Water Sources, Protected Areas and Forests'* (joint Resolution 97/A-227 issued by the Ministry of Mining and the Ministry for Environment, Green Development and Tourism on June 4, 2015)
- *'Working Group to resolve the dispute of boundaries'* (joint Resolution 108/a/358/213 issued in 2015 by the Deputy Prime Minister, Ministry of Mining and the Ministry for Environment, Green Development and Tourism)
- *'The Procedure to implement the regimes of emergent and ordinary security, the regime of hygiene zones in the areas with water funds, water sources'* was enacted by the joint Resolution A230/127 issued in 2015 by the Ministry of Construction and Urban Development, the Ministry for Environment, Green Development and Tourism,
- *'Working Group headed by the Deputy Chairman of MRA to organize the areas with minerals mining and exploration licences according to the Resolution 289 of Mongolian Government dated July 7, 2015'* appointed by the Resolution a/71 issued on August 21, 2015 by a Head of MRA,
- *'Working Group to measure and evaluate the areas with mining licences which have not delivered their reports although has been confirmed by markscheider measurements in situ by the professional organization that the mining operations were conducted on them'* appointed by the Resolution a/15 issued on April 12, 2016 by a Head of MRA.

3.1.1.7 Actions taken or in progress as a result of the Law on Prohibiting Mineral Exploration and Extraction near Water Sources, Protected Areas and Forests

In total, 656 mining licences were involved under *'the Law on Prohibiting Mineral Exploration and Extraction near Water Sources, Protected Areas and Forests'*. 577 of these mining licences were the responsibility of the Mining Department and 79 of these mining licences were the responsibility of the Coal Division.

The Mining Department under MRA is examining these 577 mining licences to put into effect changes required as a result of , the new procedures and resolutions discussed above. The status of actions taken so far is:-

Real condition	Number
Fully released from the boundaries of the prohibited areas /UBE, OS, US/ /without overlapping/	263
Terminated by a resolutions of Cadastral Department Head	73
Being discussed before decisions	241
Total	577

The 263 mining licences which were fully released from actions of this Law are for various minerals as follows:

Mineral type	No. of licences
Gold	154
Wolfram	5
Iron	5
Lead	8
Mixed metal	4
Molybdenum	3
Copper	1
Rare metal	3
Silver	1
Construction materials	65
Others	14
Total	263

73 of the licences have been terminated by resolution of the Cadastre Department Head; the remaining 241 mining licences are under review as follows:

Issues to decide	Numbers of licences	Note
<i>Regulate by the Law on Forest</i>	40	Licence holders were informed by the Ministry for Environment, Green Development and Tourism to have conducted the forest evaluation and issue a conclusion.
<i>Prior to issue a conclusion, the reports of mining operations and major maps which were kept within geological data bank were checked in order to verify whether any mining operations were carried out within the boundary of ordinary protection</i>	107	<ul style="list-style-type: none"> - Mining operations were carried out within the boundary of ordinary protection of the areas with water funds – 28. From them, the holders of 11 mining licences signed agreements to conduct mining operations within the boundary of ordinary protection of the areas with water funds, have approved them by MRA, SSIA and delivered to the Governors of the respective provinces to be approved. There are complaints that Governors of the respective provinces illegally requested large fiscal amount from the applied companies to approve these agreements or obtain these companies under own possession etc. An official letter (No.07/215 dated April 4, 2016) was delivered to MRA informing that the Head of land affairs, Construction and city development under Tuv province administration has required to obtain the companies which operate on Tuv province territory under own possessing registration. Darkhan-uul province confirmed and delivered the agreement of Khatan tushig trade LLC. One company complained that Bayankhongor province responded that it will approve an agreement if a company will pay 100 million MNT. However, this province did not deliver any explanation to MRA. - Mining operations were not carried out within the boundary of ordinary protection of the areas with water funds-57. The official letters were sent to the companies to return the sections of the mining licences which overlapped with the boundary of the areas with ordinary protection with water funds. - With conflicts and impossible to issue conclusions-22. The identified conflicts: major maps of mining operations did not have coordinates, or with local coordinates, or major maps of mining operations missed.
<i>Allocated after enactment of the law</i>	16	These were allocated after enactment of the Law on Prohibiting Mineral Exploration and Extraction near Water Sources, Protected Areas and Forests. Therefore it needs to subtract the sections which <i>overlapped with the boundary of ordinary protection</i> .
<i>Overlapped with the boundary of areas where water stream is created. Therefore it is revoked.</i>	79	Applications were delivered during the legal period. Despite most sections overlapped with the boundary of areas where water stream is created. Therefore, there are 29 licences to revoke after payment of compensation and 50 licences which did not deliver their applications during the legally required period.
Total	241	

3.1.1.8 Nuclear Energy Law, 2009

The purpose of the law on Nuclear Energy is to regulate the relations connected to exploitation of radioactive minerals and nuclear energy on the territory of Mongolia for peaceful purposes, ensuring nuclear and radioactivity safety, protecting population, society and environment from negative impacts of ionized radioactivity.

3.1.1.9 The Law on minerals with common occurrences

This law is to regulate relations associated with award of licences for widespread mineral exploration and production, and responsibilities of the licence owners, as well as protection and rehabilitation in mine fields.

3.1.1.10 The Draft Law on Transparency in the Extractive Industry, 2014

The draft law on Transparency in the Mineral Resources Sector was presented to the Parliament of Mongolia on October 13, 2014. The draft law consists of 4 chapters and 17 articles. The purpose of the law, as stipulated in the draft, is to regulate relations arising from implementation of transparency in the mineral resources sector.

This includes relations regarding submission of a transparency report by a licence holder, preparation of an integrated report of mineral sector transparency based on reports submitted by licence holders and informing the public about the integrated report.

The draft law has successfully passed by the Government and the Parliament's Economic standing committee discussions, and is now ready for Parliament discussions

3.1.1.11 State policy until 2025 for mining sector

The State policy³ to adopt for the mining sector is directed to develop transparent and responsible mining relying on private sector, to create the balanced structure with numerous supporting pillars for economy within short term and middle terms for the major national interests.

The objectives of the State policy to adopt for the mining sector are to create the stable environment for its investments, support the updated equipment, technology, innovations which are friendly to environment, subsequently improve quality of exploration, mining, processing of minerals, produce the value-added products and improve the capacity to compete for international market.

The State policy to adopt for the mining sector will be consistently coordinated with the policies of other sectors.

The documents of this State policy aiming to determine the principle to adopt by State for the mining sector and directions of growth, improve management mechanism and these policies will be reflected to legislation of this sector, middle and long-term programs, sub-programs, projects and being implemented.

Please see extended information from <http://www.legalinfo.mn/law/details/9756>

3.1.1.12 State policy until 2017 for petroleum sector

The major objectives of the State policy⁴ to adopt for the petroleum sector for 2017 are to secure the national and economic security of Mongolia, intensify petroleum exploration and investigations of the areas with strategic importance, increase petroleum reserves, increase extraction, construct a

³ <http://www.legalinfo.mn/law/details/9756>

⁴ <http://www.legalinfo.mn/annex/details/3386?lawid=6616>

plant to process petroleum, reliably supply the demands of petroleum products and create a basis for national factories.

Please see extended information from <http://www.legalinfo.mn/annex/details/3386?lawid=6616>

3.1.1.13 State policy for radio-active minerals and nuclear energy

The objectives of the State policy⁵ to adopt for the radio-active minerals and nuclear energy are to investigate the reserves of these minerals, to become one of the leading countries which mine, process and export such minerals for peaceful purposes, extensively use nuclear energy for economic and social demands, produce nuclear energy by non-toxic for human health, ecologically clean, environmentally-friendly technologies. create the stable environment for its investments, support the updated equipment, technology, innovations which are friendly to environment, subsequently improve quality of exploration, mining, processing of minerals, produce the value-added products and improve the capacity to compete for international market.

Please see extended information from <http://www.legalinfo.mn/annex/details/3309?lawid=6174>

3.1.1.14 The Audit Law, 1997, 2015

The Law on Audit was enacted in 1997 and has been revised and changed seven times. The final revised edition was approved by Mongolian Parliament on June 19, 2015 and came into effect starting from January 1, 2016.

The revised edition contains the following major changes to this law:

- The legal basis for the monitoring mechanism of audit quality was clearly defined and the duties and responsibility of governmental organizations to implement them were determined,
- Criteria were set out to determine the companies which must have their financial statements audited, based on the amount of their total assets. The new edition adopted the approach to rely on understanding of 'the companies of public interests'.
- The methodologies to follow, translate and implement the international audit standards were assigned to the Institute of the Mongolian certified accountants,
- An organization to provide audit service for particular organization shall supply this service during 5 years,
- The independence principles and criteria of an auditor and audit organization were better defined
- In order to combine the numerous minor audit companies, to boost their potential and make them capable to compete in the country and in the region it was resolved by this new edition that an audit organization with not less than four certified auditors whose authorization is non-limited will be permitted to supply audit services for the companies of public interests and for significant companies and organizations.
- The regulation was amended that an auditor of an organization and company is allowed to carry out the respective audit for own organization and company by the request of the governmental organization and entitled NGO, members of companies and owners.

3.1.1.15 The Law on Accounting and Registration, 2001, 2015

The Law on Accounting and Registration was firstly enacted in 1993 and has been amended and changed in 2002, 2003, 2006, 2011 or totally six times and was in effect until December 31, 2015. Mongolian Parliament enacted a revised law on Accounting and Registration on June 19, 2015 which

⁵ <http://www.legalinfo.mn/annex/details/3309?lawid=6174>

created the legal mechanism to improve the accounting and audit structure to meet modern requirements and international practice, to follow international standards for the registration of companies and audit requirements for companies, to work out financial statements relying on the objective financial and economic data and information of the clients or the company members, shareholders, banks, financial organizations and companies with state funding.

Implementation of this law will put in place the accounting and registration requirements for companies with public interest, small and middle companies, and the requirement that financial statements are prepared under international standards.

This law came into effect on January 1, 2016.

3.1.1.16 General Taxation Law, 2008

This Law was enacted on May 20, 2008 and established the legal basis to create various taxes in Mongolia, determine tax amounts, impose them, report, remunerate, monitor, inspect, receive taxes and defined the rights, duties and responsibility of a taxpayer and tax divisions and regulated the relations between these entities. In total, twenty two amendments and changes have been made between its initial enactment and December 31, 2015.

3.1.2 ACTION PLAN OF THE MONGOLIAN GOVERNMENT FOR 2016-2020⁶

The Government created after 7th regular Election for Mongolian Parliament prepared its Action Plan to implement during 2016-2020 relying on the Perspective of Mongolian Stabilized Development-2030, The Objectives of Mongolian People's Party proposed for the Parliament Election of 2016, comments, feedbacks of civil society organizations, citizens, voters and relied on the international agreements. The Action Plan of Government determined to take the following measures within the scope of the major objectives as to create the favourable environment for investments of geological and mining sector, create the stable development of the mining sector and increase the competing capacity of Mongolia for international market of minerals:

1. Support the stable development of the mining sector by increasing studies as the geological mapping of Mongolia, general prospecting, aero-geophysics, geochemical, hydro-geological and geo-ecological studies.
2. Build the National Geological Division according to the international practice and a data bank of the national geological data and facilitate the spreading of information.
3. Create a favourable legal environment for investment in the geology and mining sectors and implement the mutually profitable projects and programs.
4. Properly keep a participation of Government in the production of mining sector, upgrade the Cadastral registration system and improve the services to allocate licences.
5. Intensify petroleum exploration, prospecting and mining operations and increase their reserves.
6. Implement the directions to allow for the interested individuals to work together for small scale mining sector which was stated in 3.1.2 of the State policy to adopt for the mining sector and improve the respective legal regulations.
7. Work out the long-term planning to develop the mining infrastructure and improve coordination among sectors.

⁶ Source: <http://zasag.mn/news/khotolbor>

8. Build a unit for mining studies and create the favourable environment for investments of mining sector.
9. Create the legal environment to use by-products of minerals and achieve an international level of mine closure and reclamations.
10. Settle the funding for implementation of 'Gold-2' program collaborating with Mongolian Central Bank.
11. Increase extraction of gold and create a favourable legal environment for purchasing of gold produced by small scale and artisanal miners.
12. Continuously increase mining of petroleum and construct a petroleum processing plant.
13. Support the actions to construct a Plant to melt and purify copper concentrates,
14. Create the conditions to construct a complex of black metal in the zone of Darkhan and Selenge.
15. Policy support for construction of coal washing, steel processing plant and plant of compound gases of coal.
16. Policy support for construction of liquefied fuel, flammable materials and lubricates.
17. Develop the plant of metal structures and the assembling plant.

The changes of the Mongolian Parliament Resolutions relating to to the mining sector

February 13, 2015

Clause of 8.2 of Mongolian Parliament Resolution No.35 which states 'Approval of the Mongolian State Policy to adopt for radio-active minerals and nuclear energy' was revised and changed as follow:

'The Commission for Nuclear Energy is responsible to regulate utilization of radio-active minerals and nuclear energy in Mongolia, develop the nuclear science, implement nuclear technologies, prepare and supply human resource, coordinate the actions devoted for radiation protection and ensuring of nuclear safety⁷.

Changes of the legal regulations in the petroleum sector and procedures

No	Names	Approved date	Document classification	Main content, clarification
1.	Model of Product Sharing Agreement	Government Resolution No.104 dated March 16, 2015	Contract, legal act	Make all signed agreements related to the petroleum exploration and mining operations with same model and these agreements to be signed between the government organizations, contractors and all Product Sharing Agreements with same model for all Mongolia.
2.	The procedure to regulate the relations respective to exploration and mining of unconventional petroleum	Government Resolution No.295 dated July 7, 2015	Procedure	Regulate the relations respective to exploration and mining of unconventional petroleum in Mongolian territory.
3.	Model of 'Agreement to protect environment and support the growth of local areas' to be signed between a mining licence holder and a Governor of districts and villages	Government Resolution No.430 dated November 2, 2015	Contract, legal act	Regulate the issues to protect environment and voluntarily support the growth of local areas' to be signed between a petroleum mining licence holder and Governors of districts and villages
4.	Procedure to receive the areas exposed to exploration, prospecting	Resolution 196 dated September 4, 2015 by Mining	Procedure	Regulate the relations respective to returning areas of exploration, prospecting and mining of petroleum, unconventional

⁷ (This Clause was changed by the Resolution 35 dated February 13, 2015

	and mining of petroleum, unconventional petroleum.	Minister		petroleum.
5.	Procedure to receive the results of reclamation operations of the areas exposed to exploration, prospecting and mining of petroleum, unconventional petroleum	Joint Resolution A/28-A/69 dated March 16, 2016 by Mining Minister and Minister for Environment	Procedure	Regulate the relations respective to receipt of the reclaimed areas exposed to exploration, prospecting and mining of petroleum, unconventional petroleum.
6.	Procedure to grant the professional degrees respective to petroleum, unconventional petroleum	Resolution 53 dated March 12, 2015 by Mining Minister	Procedure	This procedure is aimed to regulate relations related to granting of the professional degrees to engineers of Mongolian petroleum sector, affirmation of these degrees by organizations of state authority, their monitoring, boost the professional skills, knowledge, competing potential of engineers working for petroleum and unconventional petroleum sector, evaluate their experience, creations and increase quality of their services and performance.
7.	Procedure `The requirements for an operation plan to extract reserves of petroleum deposits	Resolution 197 dated September 4, 2015 by Mining Minister	Procedure	The major requirements for an initial evaluation of the identified petroleum, an initial evaluation of the possibilities to extract reserves of petroleum deposits, a plan (Feasibility Study) to extract reserves of petroleum deposits and regulation of the actions respective to discussion and receipt of the Feasibility Study
8.	Procedure `The requirements for the initial report and Report of results respective to exploration, prospecting and mining of petroleum, unconventional petroleum`.	Resolution 49 dated March 10, 2015 by Minister for Mining	Procedure	Regulate the relations respective to initial report, the processed documents and Report of results of conducted operations respective to exploration, prospecting and mining of petroleum, unconventional petroleum in Mongolian territory and submission of these reports to the Petroleum Authority (PA) in accordance to the Mongolian Law on Petroleum, Product Sharing Agreement and Prospecting Agreement.

3.1.3 FISCAL REGIME

3.1.3.1 Budget structure

The United Budget of Mongolia consists of the following budgets:

- State budget,
- Local budget,
- Human development budget,
- Budget of Social Insurance Fund

The **State budget** is approved by the State Great Assembly (Mongolian Parliament), and the Government is responsible for collection of revenues and for expenditure from it.

The **Local budget** is approved by the Assembly of Citizens Representatives, and the Governors of provinces, capital city, districts and villages are responsible for collection of revenues and for expenditure relating to their jurisdiction... The local budget comprises the budgets of provinces, capital city, districts and villages.

Revenues for budget consist of the revenues of the Stabilization Fund and the balanced revenues. The balanced revenues consist of the regular revenues, asset revenues and assisting revenues. The

regular revenues consist of taxes revenues and non-taxes revenues. Taxes revenues involve income tax, fees for social insurance, property tax, taxes of domestic goods and services, tax revenue of foreign trade and other taxes. Non-tax revenues involve the dividend of shares for the state properties of the companies with state participation, interest, fines, rent, own income of the budget organizations and other non-tax revenues.

The Human Development fund budget

The details of income and spending of the Human Development fund refers to Section 3.8.3.

The Social insurance Fund budget

Income for the social insurance fund shall come from the following sources:

- a. social insurance premiums paid by insured;
- b. social insurance premiums paid by employers;
- c. bank interest on income earned from the sale of securities on deposits of the uncommitted balance;
- d. sanctions imposed for delaying social insurance premiums;
- e. contributions from the state central budget; and
- f. other sources

The social insurance fund shall be spent in accordance with the conditions and procedures provided by law for the following purposes:

- a. granting benefits and pension
- b. financing the cost of social insurance organization, national and branch council's activities; and /This clause was modified by the law in 5 May 2008/
- c. financing other payments and costs provided by law.

3.1.3.2 Budget laws

The budget policy of Mongolia is regulated by the following laws.

Budget Law

This Law establishes the principles, systems, composition and classification of the budget and implements specific provisions of the budget, defining the rights, duties and responsibilities of bodies that participate in the budget process; it defines the procedures applying to budget preparation, budget approval, spending, accounting, reporting and monitoring.

Law on budget stability, 2010

In June, 2010 the Mongolian Parliament approved the Law on Budget Stability in order to create the conditions for stable, increasing mining of the mineral resources of Mongolia with less inflation. This Law consists of two major principal sections:

- The percent of balanced loss in the future, permitted amount of debts, percentage of expenditure increase and estimation process of budget revenues were clarified by this law including:
 - The remaining amount of Government debts estimated by the current value shall not exceed 40% of GDP of that year,
 - The increased percent of total spending of the united budget of particular year must not exceed the increased percent of non-mineral GDP of that year and the average increase of non-mining GDP of the previous subsequent 12 years of that year,

- The budget deficit shall not exceed two percent of GDP of that fiscal year or the balance of united budget shall have a profit.
- The budget policy shall be defined by the declaration of mid-term budget scope approved in accordance to the special requirements of budget. This scope shall involve the financial objectives of Government, the budget performance expected by Government, macro-economic (employment level, Consumer Price Index etc) expectations and budget expectations (budget balance, budget investment) of three subsequent years.

Law on the Special Fund of Government

The purpose of this law is to determine the type of Government special funds and to regulate relations with respect to composing, expending, reporting of performance and monitoring of these funds.

The Law on Future Heritage Fund

The Law on Future Heritage Fund was enacted on February 5, 2016 and it will be in effect starting January 1, 2017. The purpose of the law is to create a Future Heritage Fund in order:-

- to fairly distribute the revenues of non-renewable minerals collected in the budget to current and future generations,
- to create the mechanism to collect revenues to this Fund, distribute its revenues, manage this Fund,
- to define the regulations regarding performance reporting, monitoring and
- to govern stable and sound macro economic management of the economy.

Further information on the fund is set out in Section 3.8.3.

3.2 MINING SECTOR

3.2.1 MONGOLIA'S MINERAL RESOURCES

As of December 31, 2015 1,899 companies held licences to conduct mining and exploration operations for 57 types of minerals on 3,329 licensed areas.

We requested information for approved mineral resources of Mongolia from Board of mineral resources, MRPAM; however it is responded that currently no information is available for movement of resources for whole country.

Total resources registered in the calendar year 2015 are shown in the table below (column headed "2015"), together with the total registered resources at 5th September 2016. Mineral resources in Mongolia are registered and reported by the Mineral Resources Authority of Mongolia (MRAM)

No	Types of deposits	Resource	Unit	Registered resource	
				2015	2016-09-05
1	Major deposit of gold	Ore	Thous.tons	8,242.52	62,864.24
		Metal-gold	kg	28,044.25	33,819.66
		Metal-silver	kg	36,178.50	6,526.06
		Cu	Thous.tons		4.73
		Mo	Thous.tons		1.50
2	Earth deposit of gold	Shlich or minerals with higher own weight	kg	6,800.54	6,564.33
		Metal-gold	kg	6,129.85	5,940.19
3	Iron	Ore	Thous.tons	202,501.99	17,839.47
		Metal	Thous.tons	31,911.38	5,260.50
		Zn			163.34

№	Types of deposits	Resource	Unit	Registered resource	
				2015	2016-09-05
4	Copper	Wolfram			19.54
		Molybdenum			7.34
		Ore	Thous.tons		2,042,008.33
		metal	Tons		7,789,023.59
		Metal-gold	kg		815.0
5	Molybdenum	Molybdenum			326,265.37
		Ore	Thous.tons	314,823.50	
		metal	Thous.tons	286,71	
		Mo equivalent	Tons	336,397.62	
		W	Tons	74,205.50	
6	Wolfram (WO3)	Ore	Thous.tons	254.48	
		metal	Tons	2,950.50	
		Sn	Tons	456.0	
7	Rare elements of earth (oxide)	Ore	Thous.tons	268,175.53	
		Metal	Thous.tons	1,203.14	2,263,79
		Li2O	Tons		14,504.49
		Rb2O	Tons		4,250.82
		Cs2O	Tons		586.46
8	Coal	Pure	Mln tons	4,254.34	1,295.43
		With layer of stone	Mln tons	4,603.60	1,397.98
9	Fluorspar	Ore	Thous.tons	5,139.67	801.11
		metal	Thous.tons	2,248.72	335.00
10	Limestone		Thous.tons	118,156.07	155,388.34
11	Construction stones		Thous.m ³	100,199.48	130,833.55
12	Sand-gravel		Thous.m ³	25,006.86	4,446.33
13	Gypsum		Thous.tons	18,061.22	
14	Uranium	Ore	Thous.tons	9,043.22	214,534.22
		Metal	Tons	7,885.72	4,922.25
15	Manganese	Ore	Thous.tons	11,791.65	
		metal	Tons	941.25	
		Ore –Mn 3O4	Thous.tons	8,238.52	
		Metal- Mn3O4	Thous.tons	819.25	
16	Anthracite	Ore	Thous.tons		8,600.04
		Metal			712.05
17	Sand stone of silica	Metal	Thous.tons		17,266.79
18	Clay		Thous.tons		1,355.77
19	Mixed metal	Ore	Thous.tons		15,091.37
		Molybdenum	Tons		8,908.24
		Copper	Tons		57,547.25
		Copper equivalent	Tons		84,546.65
		Wolfram	Tons		21,150.52
		Silver	kg		28.09
		Zinc	Tons		41,043.13
		Alumina	Tons		1,534.88
		Be	Tons		9,363.85
		Bi	Tons		3,533.18
		Wolfram equivalent	Tons		31,109.93

Source: Department of Geology and Exploration, MRAM

Coal

Resources of Mongolian coal and growth

For Mongolia, coal is not only the major source of energy but also it is the valued wealth that impacts upon economic growth of Mongolia.

At current rates of consumption, the world's reserves of coal are estimated to be sufficient for 250 years, while oil reserves are estimated to be sufficient for 50 years, and natural gas reserves for 70 years.. The geological inferred resource of Mongolian coal is estimated as 162.3 billion tons and likely to increase further following extension of exploration activities. There are more than 300

deposits and outcrops in 15 basins and their resources were determined as more than 20 billion tons of coal by the results of preliminary exploration and detailed exploration. This ranks Mongolia amongst the top 10 countries in the world for reserves of coal.

Copper

Oyu Tolgoi LLC

Oyu Tolgoi LLC⁸ is constructing a mine to extract the largest deposit of copper and gold in the world. The life of the deposit is estimated to be at least 50 years. The Oyu Tolgoi deposit was firstly explored in 2001 by Turquoise Hill Resource of Canada. Rio Tinto, one of the major significant mining companies of the world holds the majority of the shares of Turquoise Hill Resource and has actively participated in the project since 2005. From 2010, Rio Tinto became the project manager on behalf of all the stakeholders.

Turquoise Hill Resource (66%) and Erdenes Oyu Tolgoi LLC (34%) jointly own Oyu Tolgoi LLC and Mongolian Government own Erdenes Oyu Tolgoi LLC. The general structure of sustainable development of Oyu Tolgoi Project is the biggest investment in Mongolian history. The project requires a capital investment of USD 6 billion for development, in addition to the USD 1 billion already spent for exploration and evaluation.

The investment has an accelerating impact upon Mongolian economy which has GDP of USD 6.2 bn at the end of 2010. International Monetary Fund estimated that the Mongolian Government is the major beneficiary of Oyu Tolgoi Project outcome and Mongolia will receive up to 71% of all profits.

The project is the biggest employer in Mongolia. During the peak period of construction 15,000 people will work on the project, of whom 10,000 will be Mongolian nationals.

`Erdenet Mining Corporation` LLC

`Erdenet Mining Corporation` LLC⁹ was jointly owned by the governments of Mongolia and the Russian Federation until mid 2016, when the Mongolian government acquired the Russian Federation's shares. It is one of the biggest factories of Asia for the production and concentration of copper and molybdenum ore. The plant was constructed on `Erdenetiin ovoo` deposit in 1978 by the Agreement signed between the Governments of the two countries.

Currently, Erdenet Mining Corporation processes 26 million tons of ore body per annum and produces around 530,000 tons of copper concentrate and around 4,500 tons of molybdenum concentrates annually. However, the resource to mine this factory was increased recently. The Mongolian Ministry of Mining took five licences according to which exploration has been carried out nearby Erdenetiin ovoo deposit under State possession. Therefore, the resources increased by 3 million tons of copper and 55,000 tons of molybdenum. The value of these resources is estimated at some USD 24 billion.

Iron

According to the Mongolian United Registration of minerals, the country has reserves of iron ore (A+B+C category) totaling 1 billion tons in 2012. 46 deposits with an average content of 28% - 60% of iron ore were registered and the deposits with more than 50 mln tons of reserves are Tumurtei, Bayangol, Tsahiurt-Ovoo, Tayannuur, Ereen and Dartsagt.

⁸<http://ot.mn/>

⁹ <https://www.erdenetmc.mn/>

Gold

The Mongolian Government has implemented “Gold” programmes in 1992 and 2000 and these programmes played an important role in supporting the growth of the Mongolian economy.

According to information provided by the National Statistics Committee of Mongolia in October 2015, gold contributes 2.6% of GDP, 9.6% of mining production and 9.1% of export revenues.

Currently, Mongolian gold reserves are approximately 2.000 tons. During recent years the legal and tax environment of gold sector has been improved and the revenues of gold supply and export revenue are on a rising trend. Production of gold was 5.9 tons in 2012, 12 tons in 2014 and expected to increase as 15 tons in 2015.

Gold supplied to the Central Bank of Mongolia was 6 tons in 2013 and 12.7 tons in 2014. The percentage of the gold supplied by small scale and artisanal miners to the Central Bank of Mongolia was 0.1% in 2013 but increased to 25.5% in 2014 and 45.7% in October 2015. The value of the gold supplied was USD 270.4 mln in 2013 and USD 514.5 mln in 2014.

Fluorspar

Fluorspar or fluorite is a metallic alkali extensively used in the sectors of coloured and black metals, chemistry, medicine and the optic sector.

Mongolia has been the leading country in the world by production and export of this raw material during 1980s. Currently Mongolia annually produces 400,000 tons of fluorspar, making it the third largest producer in the world behind China and Mexico.

Molybdenum

Generally, the market has been slow due to decrease of demand for molybdenum concentrate in China. Nevertheless, the major molybdenum mines have continued to produce molybdenum at their planned rates.

The production of molybdenum decreased by 3,800 tons (47% of content) in 2013, which was a decline of 4.7% on the previous year. Nonetheless, Mongolia is still the 13th largest molybdenum producer in the world .

Zinc

15 deposits and 120 outcrops of zinc and lead have been identified in Mongolia. In 2013 Mongolia produced 104,000 tons of zinc concentrate.

Uranium

Uranium reserves in Mongolia have been estimated at 1.5 mln tons in 11 deposits, including the geological resource of approximately 75,000 tons. Around 67,300 tons in 7 deposits have been assessed as capable of commercial development. The reserves of uranium in Mongolia represent around 1% of the world's uranium resources.

Identified uranium deposits are:-

No	Deposits	Resource, thous tons U	Resource grades
1	Dornod	28,868	C1+C2
2	Gurvanbulag (central ore body)	8,580	B+C
3	Nemer	2,528	C2
4	Mardai	1,104	C1+C2
5	Ulaan	270	C1+C2
6	Kharaat	7,288	B+C
7	Khairkhan	8,406	B+C
8	Narst	1,000	P1
9	Dulaan uul	9,888	B+C
10	Gurvan saikhan	4,250	C
11	Ulziit	3,076	C
Total resource		75,258	

3.2.2 DEPOSITS OF STRATEGIC IMPORTANCE

Article 9, Clause 1.5 of the Minerals Law states that 'Government will deliver to Parliament its proposal to settle the percentage and amount of the strategically important deposits of minerals to be owned by State'.

The definition of a strategically important mineral deposit is 'any deposit which might have an impact upon national security, national economy and social growth of the country and region, or the deposits which are capable to supply or supply more than 5% of GDP of that year.'

Minerals of strategic importance are defined as water, oil, natural gas, radio-active minerals, rare elements of earth; and 16 deposits are named in Appendix 01 of Resolution 27 issued by the Mongolian Parliament in 2007 as follows:-

No	Deposits	Types of minerals	Locations	Resources (thous.ton)	Note
1.	Tavan Tolgoi	Hard coal coking	Tsogttsetsii, Umnugovi	6,400,000	The areas with estimated resources will be included to the licenced areas held by TavanTolgoi JSC, Energy Resource LLC and Daitsuki LLC.
2.	Nariin sukhait	Coal	Gurvantes, Umnugovi	126,000	Stability Agreement was signed with Mongolian Government.
3.	Baganuur	Brown coal	Baganuur, Ulaanbaatar	600,000	The areas with estimated resources will be included. Mined by Baganuur JSC.
4.	Shivee ovoo	Brown coal	Shiveegovi, Govisumber	646,000	The areas with estimated resources will be included. Mined by Shivee Ovoos company.
5.	Mardai	Uranium	Dashbalbar, Dornod 0.0011		Exploration was funded by state budget and additional exploration is conducted by private funding.
6.	Dornod	Uranium	Dashbalbar, Dornod 0.0289		
7.	Gurvanbulag	Uranium	Dashbalbar, Dornod 0.0161		
8.	Tumurtei	Iron ore	Khuder, Selenge	229,000	The licence of this deposit was held by BLT LLC and it was revoked in 2006. The area with estimated resource will be involved.

9.	Oyu Tolgoi	Copper, molybdenum	Khanbogd, Umnugovi	26,300 (copper) 0.019 (silver)	The report with the estimation of its resource is being prepared for the discussion by the Professional Counsel of Minerals. Shall involve several deposits.
10.	Tsagaan suvarga	Copper, molybdenum	Mandakh, Dornogovi	10,600	Exploration was funded by state budget and additional exploration is conducted by private funding.
11.	Erdenet	Copper, molybdenum	Bayanundur, Orkhon	1,200,000	
12.	Burenkhan	Phosphorus	Alag-erdene, Khuvsgul	192,000	Four companies keep exploration licences on the areas with estimated resources outside of the Strictly Protected Area of Khuvsgul.
13.	Boroo	Gold	Bayangol, Selenge	0.025	Stability Agreement was signed with Mongolian Government.
14.	Tumurtein ovoo	Zinc	Sukhnaatar, Sukhbaatar	7,700	Stability Agreement was signed with Mongolian Government.
15.	Asgat	Silver	Nogoon nuur village, Bayan-Ulgii province	6,400	Its licence is held by the joint company Mongol-Rostsvetmet by the Agreement signed between Mongolian and Russian Governments.
16	Gatsuurt ¹⁰	Gold	Mandal, Selenge		Government will determine the deposit boundary.

Source: Mineral Resources Authority of Mongolia

3.2.3 SMALL-SCALE MINING

Small scale mining is carried out in 238 deposits and in the areas with outcrops of minerals. 181 of these¹¹ (76.1%) were located in 8 provinces:-

Province	No of deposits	No of miners
Tuv	44	1,800
Govi-Altai	33	800
Dornogovi	25	300
Khentil	20	300
Khovd	17	600
Selenge	16	1,300
Umnogovi	16	300
Uvs	10	1,700

The average number of micro-miners per deposit in provinces and capital is 420 in Ulaanbaatar, 321 in Bayankhongor province, 212 in Khuvsgul province, 171 in Uvs province, 148 in Darkhan-uul province, 108 in Uvurkhangai province, 78 in Selenge province, 52 in Dundgovi province and 52 in Govi-sumber province. Whereas, 11 in Umnugovi provinve, 12 in Dornod, 14 in Khentii and these provinces being considered with less density of micro-miners per deposit.

¹⁰(This Clause was amended by the Resolution 11 dated January 23, 2015)

¹¹ Research report for the micro-miners-National Statistical Commettee, Swiss Developmet Cooperation, 2013

In December, 2010 Mongolian Government issued the Resolution 308 which approved 'The Procedure to extract minerals by small-scale mining' and it is in effect to date. More than 70% of micro-miners work in the gold sector and the majority of micro miners mine the major and earth deposits of gold. In Mongolia around 30,000 micro-miners¹² extract gold during the warmer seasons, creating work places for themselves and sources of income. In 2014 there were 41 associations with 5,300 members and the numbers of individuals, micro-miners to be involved to associations and the number of associations are increased during recent years. Micro miners produced 2.1 tons of gold in 2006, 1.3 tons in 2013 and 1.5 tons in 2014.

3.2.3.1 Legal environment

Legislation regulating the activities of small-scale miners is as follows:

- 'The temporary Procedure to extract minerals by non-industrial methods' enacted by the Order 53 by the Minister for Industry and Trade dated May 24, 2002.
- Resolution 28 of the Mongolian Government issued on 23 January 2008 'To regulate the actions of small-scale miners' and it set forth 'To build the small plants on 3-4 places to process ore of the major gold deposits for SSM'.
- Resolution 71 of the Mongolian Government issued on February 27, 2008 to approve 'The sub-program to develop small-scale mining for 2015' and Resolution 72 which approved 'The temporary Procedure to regulate actions of small-scale miners'.
- Resolution 89 of the Mongolian Government dated 12 March 2008 relating to small-scale miners 'To regulate the actions of small-scale miners who extract coal of Nalaikh district'.
- An Amendment was added to the Law on Minerals on July 1, 2010; this affirmed the rights of the governmental organization in charge of geology and mining over issues in respect of small-scale mining and affirmed the rights of local governing and self-governing organizations stating 'The relations respective to extraction of minerals by small-scale mining shall be regulated by a procedure and the Government shall approve this Procedure' (3.1.2 of this Law).
- According to this Law, the Government of Mongolia enacted the Resolution 308 'Regulation on extraction of minerals from small-scale mines (SSM)' on December 1, 2010 and this Regulation is validly being followed to date.

3.2.3.2 Information on renewal of the legal environment for small scale mining

Legal environment	Articles
Minerals Law on July 1, 2014	<p>4.1.23. 'conducting artisanal mining' means the mining actions of individuals organized as a 'cooperative' as set forth in Article 36.4, a 'partnership' as set forth in Article 35 or as an 'unregistered partnership' as set forth in Article 481.1 of the Civil Code, involving a deposit where it is unprofitable to mine or an area formed up by industrial waste; ;</p> <p>20.1. sets out the procedures for the granting of a license according to the following regulations through selection procedures where a license has been revoked or expired in any of the circumstances contemplated by Articles 53.1.1, 56.1.3-56.1.5 of this Law.</p> <p>7.3. It is prohibited to prospect, explore, use minerals without a license except the cases of small-scale mining. A license is required for a collection or a mining of natural gemstones and colored stones as for a mining of ordinary minerals.</p> <p>11.1.13. Arrange a selection procedures to allocate licenses for the areas with deposits of minerals identified by funding of state budget and issue a conclusion to allocate areas for SSM and for common minerals;</p>

¹²Source: The Baseline Study report of "Gold 2025" program

	<p>35.6. A legal entity that holds a mining license and small-scale miners must submit their extracted gold within that fiscal year.</p> <p>66.1.9. Impose penalty that is five to ten times higher than the monthly minimal wage shall be sanctioned for an individual who breached the regulation of the SSM relations, ten to twenty times higher for the violated official and thirty to forty times higher for a legal entity.</p>
Action Plan of Mongolian Government for 2012-2016	Improve the regulations of SSM and boost the monitoring on implementation of these regulations;
`The State Policy to adopt for minerals sector` which was affirmed by the Resolution 18 of the Mongolian Parliament on January 16, 2014	3.1.2. State will support by its policy the forms of a legal cooperation of small-scale miners and improve the respective legal regulations;
Action Plan of Mongolian Government for 2016-2020` which was approved by the Resolution 45 of Mongolian Parliament on September 9, 2016	<p>2.64. `According to 3.1.2 of the State Policy to adopt for minerals sector, State will implement the direction of a legal cooperation of small-scale miners and will improve the respective legal regulations`.</p> <p>2.69. Will create the legal environment to purchase the gold mined by SSM and increase extraction of gold`.</p>

In accordance with the changes and amendments made to the Minerals Law in 2014 and under implementation of State Policy for a mining sector, the Minister for Mining issued the Order 34 on February 25, 2015 to appoint a Working Group with a remit to draft a new `Regulation of small-scale mining` which was approved by the Resolution 308 of Mongolian Government issued on December 1, 2010.

3.2.3.3 Reclamation statement

Technical and biological reclamation was carried out on 23 areas destroyed by small-scale mining on 14 villages of 9 provinces or on 144.3 hectare areas by the funding of the SSM Project of the Swiss Cooperation Office in Mongolia and along with the Project II of the Asian Foundation, USA `To increase participation of parties in protection of environment.`

The reclaimed areas are shown in the table below:-

No.	Provinces and villages	Names of the model reclaimed areas, volume of reclaimed areas (hectare)	Deposit classification	Names of reclamation NGOs	Conducted period (technical and biological reclamation)
1	Bayankhongor, Bayan-ovoo	Altan us (5 hec.)	Earth deposit of gold	Growth of Altan us	July, 2014/-Sep 20, 2014
2	Bayankhongor, Jargalant	Mandal buureg and Zuun salaa (6 ra)	Earth deposit of gold	Growth of Baidrag	July 2014/-Sep 15, 2016
3	Bayankhongor, Galuut	Shar khuruu (6.7 hec.)	Earth deposit of gold	Batsaikhan setgel	July 20-Sep 20, 2014
4	Khentii, Norovlin	Uvdug ukhaa (6 hec.)	Earth deposit of gold	Norovlin khamtin khuch	July 16-Sep 15, 2014
5	Govi-Altai, Esunbulag	Zurkhtolgoi (10.1 hec.)	Earth deposit of gold	Gazar shoroo ard tumni baylag (Earth is nation's wealth)	July 16-Sep 15, 2014
6	Govi-Altai, Esunbulag	Maikhni khuruu (12.1 hec)	Earth deposit of gold	Buyanrashaant nutag	July 16-Sep 15, 2014
7	Govi-Altai, Esunbulag	Maikhni khuruu (10.6 hec.)	Earth deposit of gold	Van taij	July 16-Sep 15, 2014
8	Dornogovi, Airag	Totally (12 hec.) "64" (5 hec.) "19" (7 hec.)	Major deposit of fluorspar	Ekh oron khamtin khuch	July 16-Sep 23, 2014

No.	Provinces and villages	Names of the model reclaimed areas, volume of reclaimed areas (hectare)	Deposit classification	Names of reclamation NGOs	Conducted period (technical and biological reclamation)
9	Dornogovi, Airag	Totally (2.8 hec.) Borodoi (1.3 hec.), Tagt (1.5 hec.)	Major deposit of fluorspar	Khutagtin ur sad	July 16-Sep 23, 2014
10	Selenge, Mandal	Noyod (1 hec.)	Major deposit of gold	Duush mandal khairhan	Aug 11-Sep 15, 2014
11	Uvs, Umnugovi	Orlogin gol (10 hec.)	Earth deposit of gold	Bid Namirin ezed Bayan nutgiin khishig	July 5 –Sep 3, 2015
12	Khovd, Altai	Khaltar uul (11 hec.)	Earth deposit of gold	Altain khugjil-irgedin oroltsoo	July 5 –Sep 3, 2015
13	Khovd, Bulgan	Tsoohornuur (6 hec.)	Major and earth deposit of gold	Uvs khani urs	July 5 –Sep 3, 2015
14	Khovd, Uench	Tsagaanchuluut (12 hec.)	Earth deposit of gold	Uench altan nutag	July 5 –Sep 3, 2015
15	Dundgovi, Ulziit	Sharkhoshuu ba Khutul (10 hec.)	Earth deposit of gold	Ulziit khishig buyan	July 5 –Sep 3, 2015
16	Umnugovi, Gurvantes	Devteer (10 hec.)	Major and earth deposit of gold	Tesin khugjild bidnii oroltsoo	July 5 –Oct 5, 2015
17	Umnugovi, Sevrei	Totally (10 hec.), Dairgat (4 hec.), Chavgangs tolgoi and 850-in ravine (6 hec.)	Major and earth deposit of gold	Nogoon Sevrei	July 3 –Sep 3, 2015

3.2.3.4 Areas approved for small scale mining:

In 2016, the Mineral Resources and Petroleum Authority issued its decision on areas approved for small scale mining covering 1797.24 hectare areas including:

Year	No. of covered aimags and soums	No. of areas	Size of area (ha)
2012	10 aimags, 10 soums	25	856.55
2013	1 aimag, 1 soum	3	15.87
2014	6 aimags, 6 soums	10	56.21
2015	10 aimags, 10 soums	23	641.24
As of 2016-10	7 aimags, 8 soums	26	227.37
Total	34 aimags, 35 soums	87	1797.24

3.2.3.5 Information on gold concentration plants

Concentration plants for major gold deposits were built in Bornuur village of Tuv province, in Bayan-ovoo village of Bayan-khongor province and Mandal village of Selenge province. From them, the concentration plant of 'Surleg Mandal' LLC which operates in Mandal village of Selenge province and the concentration plant of 'Khotgorin khuder' LLC operating in Bayan-ovoo village of Bayan-khongor province obtained the respective permissions. Despite, 'The Detailed Environmental Impact Assessment' of the concentrating plant with local ownership in Mandal village and of the concentration plant built in Bornuur village has not been approved to date and these plants did not operate.

3.2.3.6 Volume and sales of the minerals extracted by SSM

Formal letters were sent to governors of the villages under Clause 3.10, ('Information related to the actions of SSM shall be prepared according to the approved templates and be delivered to the governmental organization in charge of geology and mining issues within February 15 of each year')

of the Regulation approved by the Resolution 308 that is related to SSM. The governors sent formal responses about SSM to the Mineral Resources and Petroleum Authority. The information which we requested for the EITI report on volume and sales of extracted minerals has not been provided.

In 2016 totally 17,841 kg of gold was submitted to the Central Bank of Mongolia by the companies and individuals who extract gold.

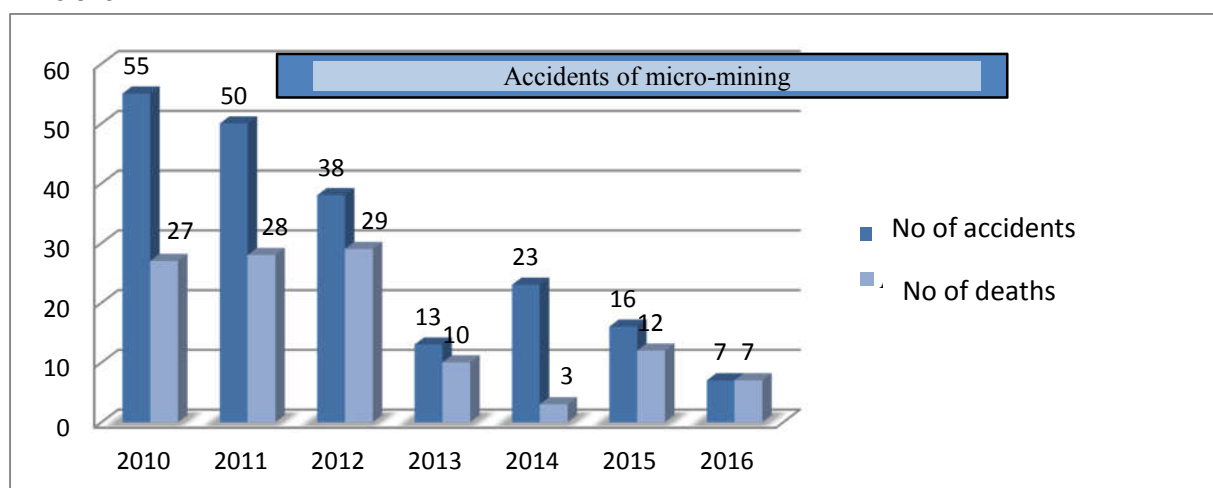
Quarter	Quantity of companies that submitted gold	Volume of submitted gold, kg	Quantity of individuals who submitted gold	Volume of gold submitted by individuals
1	560	1,862.19	405	1,196.58
2	1,342	4,610.61	789	2,523.81
3	1,318	5,195.20	616	2,453.10
Total	3,220	11,668.00	1,810	6,173.49

3.2.3.7 Information on small-scale miners

Currently, 3,592 SSM miners involved at 406 units are registered in the Association 'The United Roof of SS Miners'. Please refer to Appendix 28 for list of member NGOs of this Association locates in provinces.

3.2.3.8 Safety of small-scale miners

In order to improve the occupational safety of SSM and to seek to prevent mining accidents, Labour Safety training sessions have been held for SS miners since 2006 under the Sustainable SSM Project of the Swiss Cooperation Office in Mongolia and along with the Rescue Unit for Miners of the National Emergency Management Agency. As an outcome of the repeated training sessions and consultations, there is a decreasing trend of the accidents among SS miners who are included in the particular arrangement. 5,154 people participated in such safety trainings in 2015, of whom 2,785 were SS miners and 2,369 were employees of governmental organizations and the local Emergency Divisions.



3.2.4 GOVERNANCE

The award of licences to carry out mining (other than for petroleum) is governed by

- the Minerals Law

- the Law on Nuclear Energy
- the Law on Minerals with common occurrence

The provisions of the Law on Prohibiting Mineral Exploration and Extraction Near Water Sources, Water Protection Zones and Forests (the “Law with the Long Name”) are also relevant in certain cases.

Mongolia classifies its mineral deposits under several types, with separate legislation and regulations applying to them. The Minerals Law, (Clause 6. Classification of mineral deposits) states that mineral deposits are classified as follows:

- mineral deposits of strategic importance
- mineral deposits of common occurrence
- ordinary mineral deposits

3.2.4.1 Strategic deposits

Mongolia has 16 deposits named as strategic deposits and it intends to register an additional 39 deposits. A list of the existing strategic deposits may be found at Section 3.2.1.9.

3.2.4.2 Deposits of common occurrence

Prospecting and mining minerals with common occurrences are regulated by the special law. The classification of minerals with common occurrences relates primarily to construction materials (sand, gravel and yellow clay). The number of mining licences to mine mineral deposits with common occurrences is being increased during the period which started from the date when the Minerals Law became valid.

3.2.4.3 Ordinary minerals deposits

Mineral deposits which are not classified as strategic deposits or deposits with common occurrences are deemed to be deposits of ordinary minerals.

Prospecting, exploration and mining operations may not be commenced without first obtaining an appropriate licence.

3.2.5 LICENSING

The law provides that licences are allocated by state organizations as set out in the table below:

Organizations	Licences	Clarifications
Ministry of Mining (basing on the Law on Nuclear Energy and on the Resolution of Mongolian President this Ministry permitted for Mineral Resources Agency (MRA) to issue licences)	Licence to explore and prospect radio-active minerals	It is prohibited to sell, gift, keep as loan warrant and transfer any licence and the licensed area which were allocated by a licence to other party to possess, own and utilize.
	Licence to mine radio-active minerals	
	Licence to import, export, transport radio-active minerals, bury their wastes and licence to reclaim land after mining of radio-active minerals	
MRA	Exploration licence	Related to obtain newly, extend the valid period, suspend, terminate, transfer to others, keep as loan warrant of others and obtain a licence again.
	Licence to mine minerals	
Petroleum Agency	Licence to import minerals	To obtain a licence, extend its valid period, transfer to others – for import of all types of petroleum and liquefied flammable gas
	Licence to run wholesale trade	To obtain a licence, extend its valid period, transfer to others – actions to sell all types of petroleum and liquefied flammable gas from

		warehouses
	Licence to run non-wholesale trade	To obtain a licence, extend its valid period, transfer to others – actions to sell all types of petroleum and liquefied flammable gas from the distributing stations
Nuclear Energy Commission	Licence to construct, change, renew and terminate the use of nuclear equipment	It is prohibited to sell, gift, keep as loan warrant and transfer by any ways any licence and area which were allocated by a licence to other party to possess, own and utilize
	Licence to use the nuclear equipment	
	Licence to possess, mine and sell nuclear substances	
	Licence to import, export, transport nuclear substances and bury their wastes	
Ministry of Environment and Tourism	Licence to use water	Conclusion and permission to allow to use more than 100 cubic meters of water daily and to use for power and water transport. It is prohibited to transfer these permissions to others.
General State Inspection Agency	Licence to possess, mine and sell sources of radiation	It is prohibited to sell, gift, keep as loan warrant and transfer by other ways any licence and area which were allocated by a licence to other party to possess, own and utilize
	Licence to assemble, locate, rent, produce, terminate using, disassemble and store the sources of radiation	
	Licence to transport, import, export the sources of radiation	
	Licence to bury wastes of radiation sources, make them free of danger and conduct other operations respective to radiation sources	
Property Relationship Agency/ Ministry of Environment and Tourism	Licence to possess and use land	Issue permission to use and own area, register, extend the valid period, sign an agreement and monitor the duties of an agreement. Also register if an area is kept for loan warrant.

Source: Preliminary study of 'the real owners to receive profit' of the companies conducting the mining operations performed by the Natural Resource Governance Institute.

3.2.6 PROCESS FOR AWARD AND TRANSFER OF MINERALS LICENCES

The process for application and grant of an exploration licence, and for conversion of an exploration licence into an exploitation licence, and for the transfer of licences from one party to a new party, has been set out diagrammatically in the sections which follow.

Interested parties may apply directly for exploration and mining licence unless the MRAM is required to tender the licence under the provisions of the Law on the Amendments to the Mineral Law, (2014) (the Amendments) amending the Minerals Law, (2006). In the case of exploration licences, these provisions include:-

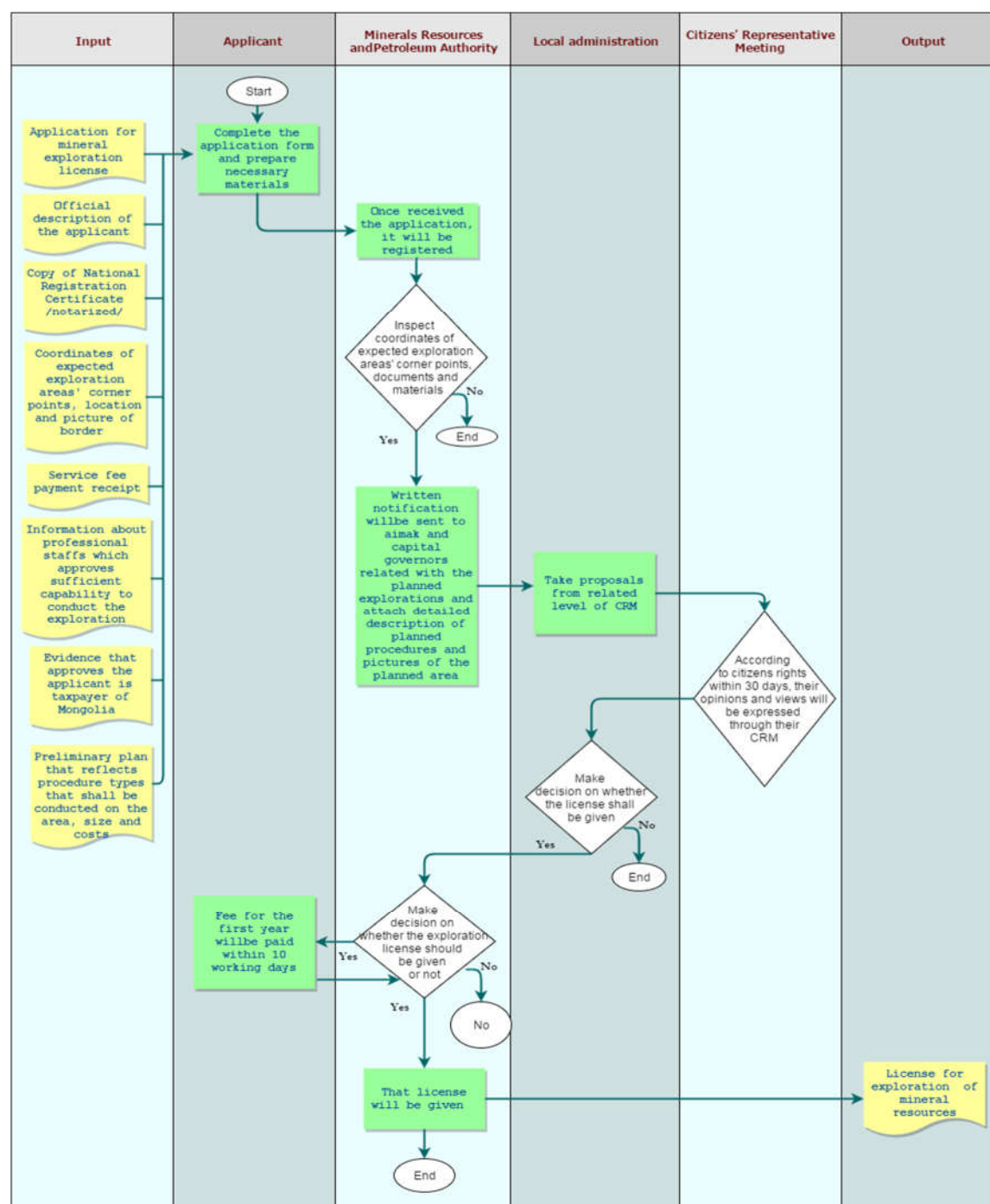
- Applications for an area with mineral concentration determined through State funded geological survey work
- Re-issue of licences revoked by the State Agency in accordance with the Amendments

The Amendments require a mining licence to be tendered under certain circumstances, including:-

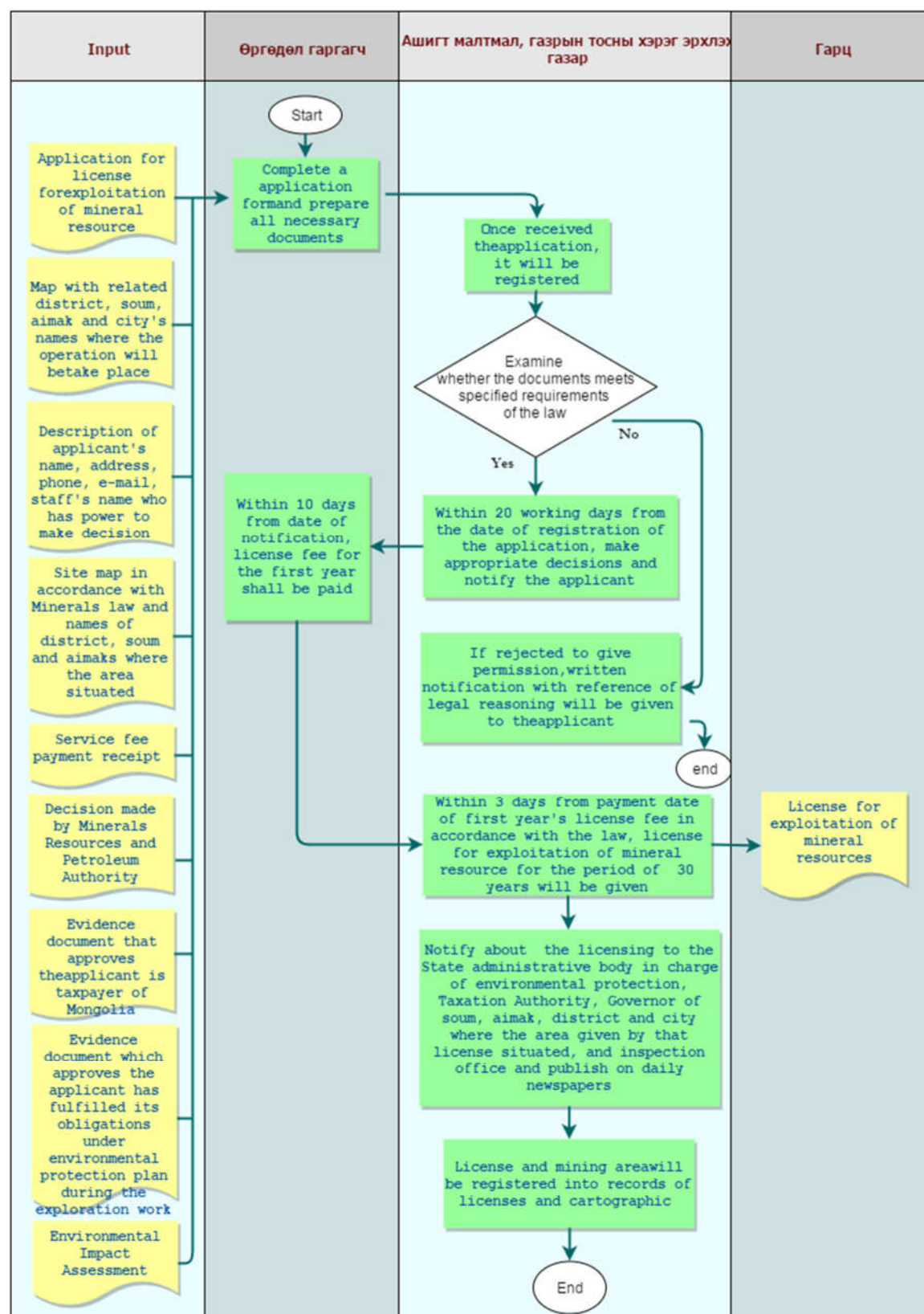
- If the exploration licence holder fails to submit an application for a mining licence upon expiry of the exploration licence
- Grant of a mining licence where state funding has been provided to determine the area explored and the reserve

The processes for making applications and the award of licences is set out diagrammatically on the following pages.

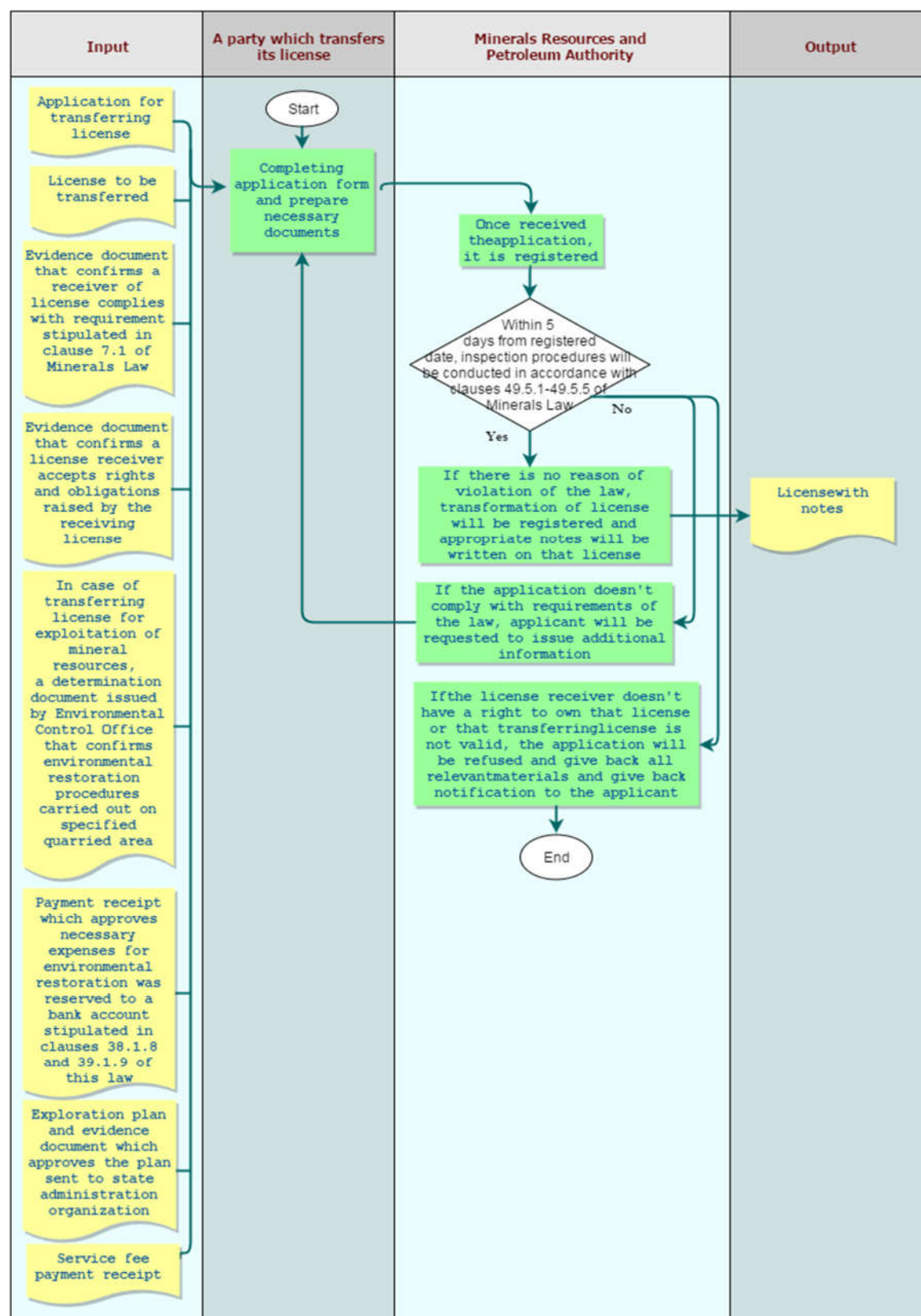
3.2.6.1 Process for award of exploration licences (no tender) – first allocation



3.2.6.2 Process for award of mining licences (no tender)



3.2.6.3 Process for transfer of licences



3.2.6.4 Process for tender of exploration and mining licences

Stages	State administrative organizations	Process
1 st stage	MRA	Commence selection procedure and issue a resolution
2 nd stage	MRA	Publicise selection to community
3 rd stage	MRA	<p>Receive the proposals for selection. The duration to end declaration about selection shall be not less than 30 days since the first declaration about selection. The participants of selection shall attach the following documents:</p> <ul style="list-style-type: none"> - Proposal to participate in selection - Official description about proposed entity - Copy of state registration certificate - Proof that applicant is a Mongolian tax-payer - Proof that threshold payment for selection is located in any commercial bank registered in the Central Bank of Mongolia - Draft, budget proposal which generally determined the types, volume of exploration and mining operations to be conducted on the said area, their duration, costs and expenses for environment protection - Notary certified list of equipment to conduct exploration and mining operations - Notary certified declaration of readiness of the professional personnel and the qualified staff - Solutions and methods of the updated technologies to conduct exploration, mining and reclamation operations, - Maps of area location and intersection - Receipt of service payment
4 th stage	MRA Selection Commission	Open proposals of selection (all eligible participants shall be attended. One trusted representative shall attend from one participating party)
5 th stage	MRA Selection Commission	<p>Participants of selection shall be evaluated basing on the following documents.</p> <p>Technical proposal (50%)</p> <ul style="list-style-type: none"> - Budget proposal setting out the types & volume of exploration and mining operations to be conducted, their duration, costs and expenses for environment protection - Notary-certified list of equipment for exploration and mining operations - Notary certified document about readiness of the professional personnel and the qualified staff - Solutions of the updated technologies to conduct exploration, mining and environment protection and reclamation operations - Maps of area location and intersection - Proposal and plan to collaborate with local areas
6 th stage	MRA Selection Commission	Open the financial proposals delivered to Selection Commission
7 th stage	MRA	Affirm the decision of the Selection Commission. A winner shall be declared within 5 working days after the completed evaluation of proposals for selection
8 th stage	MRA	The payment for the first year shall be paid within 10 working days after the issued date of MRA Head Resolution.
9 th stage	MRA Cadastral Department	A licence shall be allocated according to the MRA Head Resolution and decision of Selection Commission

Source: Procedure to select licences of MRA

3.2.7 TECHNICAL AND FINANCIAL CRITERIA TO USE FOR LICENCE ALLOCATION

Licence applications are assessed using the criteria described in the table below.

#	Evaluation criteria	Scores	Total scores
PRICE PROPOSAL (50% weighting in evaluation)			
1	Price proposal for selection: <i>The price proposals for the selection area shall be estimated by the following formula and the fraction numbers shall be tenth numbers. accuracy</i>		10-50
	$40 \times (S - S_6) + S_m - S_6$	S: Participant S₆: Threshold price S_m: Maximum price proposal	
2	Evaluation of the documents of the project to conduct the geological and exploration operations <i>The documents of the selection participant who is to implement the project to conduct the geological and exploration operations shall be evaluated.</i>		3-20
	<ul style="list-style-type: none"> If the methods of geological and exploration operations are optimal and the documents of the previous studies have been studied fully -5 If the methods of geological and exploration operations are optimal and the documents of the previous studies have not been studied fully -3 If the methods of geological and exploration operations are not optimal and the documents of the previous studies have not been studied fully -0 	0-5 scores	
	<ul style="list-style-type: none"> Planning of environment protection and its reclamation Considering the types, expenses and duration to conduct actions of environment protection and reclamation: Fully satisfying-5 Satisfying-3 Non-satisfying-0 	0-5 scores	
	<ul style="list-style-type: none"> Personnel to work Number of Mongolian employees to work for the Project, if percentage of Mongolian employees is higher than 90% among all employees -5 90 or lower than it -3 	3-5 scores	
	<ul style="list-style-type: none"> Collaboration with local areas If the types of collaboration, the planned actions and their expenses are higher than the amount set forth by 42.1 of the Minerals Law -5 If the requirements set forth by 42.1 of the Minerals Law were satisfied -3 If a proposal is non-satisfying -0 	0-5 scores	
3	Experience of geological and exploration operations <i>Experience of geological and exploration operations of the participants for selection shall be considered.</i>		3-10
	If a company conducted exploration and mining operations more than 3 years in the Mongolian geological, exploration and mining sectors	10 scores	
	If a company conducted operations in other sectors more than 10 years although it does not have experience to conduct operations in the geological, exploration and mining sectors	5 scores	
	Newly founded companies	3 scores	
4	Readiness of the professional personnel, their experience and skills <i>Readiness of professional personnel to conduct the geological and exploration operations of the participants for selection shall be considered.</i>		6-10
	<ul style="list-style-type: none"> If a consultant or expert geologist of Mongolia will work for the company If professional, full-time geologist is ready If a geologist will work by contract 	10 scores 8 scores 6 scores	

5	Supply of equipment <i>Readiness of suitable equipment to conduct the geological and exploration operations of the participants for selection shall be considered.</i>		6-10
	• If a company has own drilling and geophysical equipment to perform geological and exploration	10 scores	
	• If a company rents more than 50% of its drilling and geophysical equipment to perform geological and exploration	8 scores	
	• If a company rents all drilling and geophysical equipment to perform geological and exploration	6 scores	
	Total scores		28-100

3.2.8 STATISTICAL DATA OF APPLICATION FOR LICENCE

From 2015, MRPAM began a “one-window” service which registered exploration licence applications and recorded progress of applications through to decision and award or otherwise. The new system was designed to enhance transparency and openness and to provide state service without bureaucracy, as well as to improve its availability.

The applications are communicated to local administrative and self-governing bodies, and are discussed by citizens’ representative meetings. If award of the licences is confirmed by the meeting, MRPAM responds to the applicant companies giving details of the award. If the application is denied by the local representatives, MRPAM considers whether it is reasonable.

Local governors are required by the Minerals Law to give reasons for declining an application.

Statistical data of legal entities which applied for exploration licences in 2015 by online and obtained application numbers are shown below.

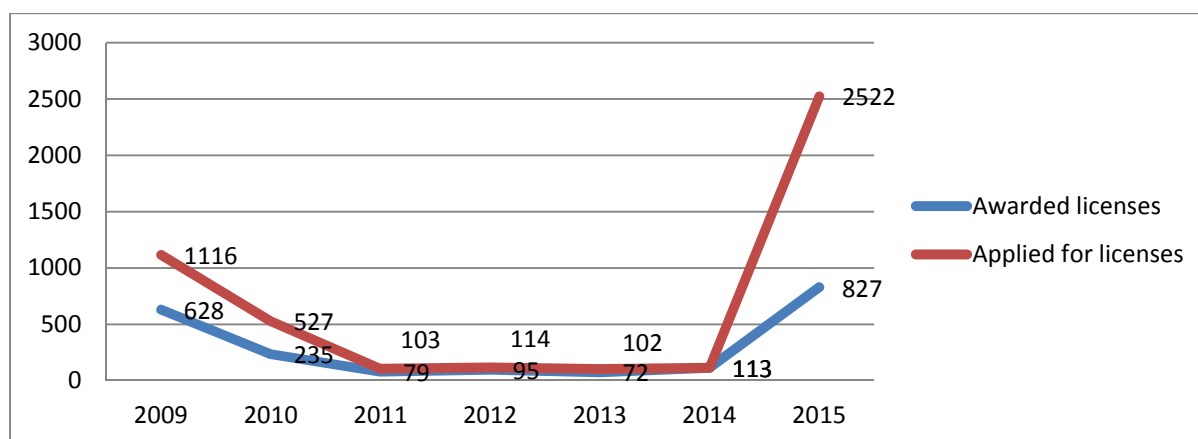
Items	Number
Total of number	3,915
Number of application received (Please refer to Appendix 16h)	2,335
Number of application sent to local administrative and self-governing bodies for their suggestions	1,778
In which of: Number of application confirmed by local administrative and self-governing bodies	567
Number of application declined by local administrative and self-governing bodies	767
Number of application with no responses from local administrative and self-governing bodies	444

We requested detailed of the legal entities which applied for exploration licences and of the application number, date and time; however MRPAM informed that it is not possible to provide this information.

We were told that the date and time stated in Appendix 16h shows the date of registered in mining cadastre registration system, which differs from the application date of legal entities.

In addition, as the initial suggestions from local governors are not recorded in mining cadastre registration system, the information on local governors’ suggestion requested by us is not available.

The graph below compares the numbers of applications to obtain licences and the numbers of the allocated licences during 2009-2015.



Sources: MRPAM statistic data

3.2.9 LICENCES AWARDED OR TRANSFERRED IN 2015 (REQUIREMENT 2.2.A.III)

The Mining and Geology Statistics published by MRAM show a net increase in licences of 593 from 2014 to 2015.

It is a Requirement of the Standard that details of all changes in licence holders are given in the EITI Report. In reviewing the change in the number of mining licences in issue between 2014 and 2015, we have been unable to reconcile the movement using figures published by the Authority.

MRAM provided information on the number of licences in issue at each year end, as follows:-

Types of licences	2008	2009	2010	2011	2012	2013	2014	2015	Sep -2016
Mining licences	1,091	1,085	1,158	1,198	1,237	1,301	1,391	1,494	1,575
Exploration licences	4,111	3,659	2,979	2,572	2,303	1,717	1,345	1,835	2,349
Total	5,202	4,744	4,137	3,770	3,540	3,018	2,736	3,329	3,924

The MRAM Statistics contain a table showing the changes in the licence registry from 2008 – 2015:-

	Changes	2008	2009	2010	2011	2012	2013	2014	2015	2016-09
1	Newly allocated	1358	628	235	79	95	75	113	827	647
	Mining	110	78	90	79	95	75	97	91	67
	Exploration	1248	550	145	0	0	0	2	697	552
	By selection tests							14	39	28
2	Returned area	184	232	105	89	141	146	119	150	123
	Mining	7	2	6	4	7	16	13	25	22
	Exploration	177	230	99	85	134	130	106	125	101
3	Terminated/invalid	231	713	458	275	270	347	123	173	157
	Mining	47	75	39	65	139	43	14	10	16
	Exploration	184	638	419	210	131	304	109	163	141
4	Ended	347	274	248	225	175	253	289	179	90
5	Transferred	681	439	448	441	200	8	51	88	108
	Mining	83	63	59	58	47	8	38	46	36
	Exploration	598	376	389	383	153	0	13	42	72
6	Extended	620	354	791	997	601	317	444	336	336
7	Kept as warrant	86	75	50	62	38	61	40	22	18

	Changes	2008	2009	2010	2011	2012	2013	2014	2015	2016-09
	Mining	49	46	36	39	22	42	34	22	16
	Exploration	37	29	14	23	16	19	6	0	2
8	Released from loan warrant	0	0	0	28	42	31	29	24	14
	Mining				8	15	29	24	19	10
	Exploration				20	27	2	5	5	4
9	Allocated again	0	0	0	94	56	15	11	19	20
	Mining				29	16	9	7	10	12
	Exploration				65	40	6	4	9	8

The Mineral Resources and Petroleum Authority (MRPA) publishes on its website the consolidated statistics of the changes of licences during a particular year, making this information transparent to the public.

Information on the remaining licences as of December 31, 2015 which was delivered to us by the Cadastral Registration System of MRPA was not in consistent with the remaining licences which were placed on MRPA website. In addition, the final amounts of the newly allocated, revoked and written off licences during a whole year were not consistent with the changes of the remaining licences in 2014 and 2015. Although the Division of Statistics Data under MRPA consolidates all data and information released by the Cadastral Registration System and publishes it, this Division does not record the actual changes and does reconcile them to other data

We raised these inconsistencies with a representative from the MRAM, who said that there had been difficulties in the Authority which may have given rise to inaccurate reporting. It is important that the Authority should maintain reliable and accurate records of all licences in issue and all changes during each period.

Information about the recipient(s) of licences transferred or awarded, including consortium members where applicable, is included in Appendix 16.

Notwithstanding the discrepancies in the information published and provided to us, MRAM said that all awards and transfers were affected under the applicable legal and regulatory framework governing licence transfers and awards.

3.2.10 LICENCE REGISTER

The MRAM cadastre website¹³ has details of some 3,800 licences. Basic information is available on demand and without charges; more detailed information requires registration. Registered users can see information about all applications for new exploration licences, processing status and fee payments for their own licences, tenders, state funded geological survey areas, blocked licence areas which shall go for tendering, and other details.

¹³ <https://cmcs.mram.gov.mn/>

Information publicly available without registration	Information available only to registered users
Register number	Register number
Registration number	Registration number
Licence holder	Licence holder
Classification of a licence	Classification of a licence
Location name	Location name
Area volume	Area volume
Area coordinates	Area coordinates
	Province
	Allocated date
	Expiry date
	Company classification
	City
	Valid/ invalid

Relying on data and information of the Cadastral Registration System of MRA which is to be seen only by an exclusive right holders, E-reporting system¹ of EITI Mongolia prepared the data about how many licences have been allocated for which province, which village, their holding companies etc and it is possible to see directly on maps all these information that became transparent for community.

Requirement 2.2 of the EITI Standard requires that the following information is published for each licence, as a minimum:

- Licence holder(s);
- The coordinates of the licensed areas,
- Date of application, date of award and duration of the licence.
- In the case of production licences, the commodity being produced.

With the support of the Technical Assistance Program of the World Bank, since 2014 the MRA has been using the Mining Cadastral Online System (MCOS) and this system openly contains the licences allocated for mining sector, the areas of these licences, and several procedures related to allocation of licences and documents.

We note that the coordinates of the allocated licences are not published on the MRA website unless additional access rights have been applied for. The locations of mining licences are visible on EITI Mongolia web site, although their coordinates are unclear.

The Petroleum Authority and Nuclear Energy Agency (NEA) which are in charge of the respective licences did not disclose the data of the licences which have been allocated for the sectors of petroleum, natural gas and radio-active minerals.

In addition, the dates of the applications to obtain licences were not disclosed in any websites. Therefore, the dates of applications of the legal entities who obtained the new licences and the resolved dates are depicted below, by the Appendix 16.

The holders of the licences which are effective as of December 31, 2015 are as follows:

	Holders		Licences		Areas (mln hect)	
	Number	%	Number	%	Number	%
With 100% of foreign investment	287	15%	582	17%	3.05	22%
With joint investment	124	7%	278	8%	1.81	13%
With 100% of national investment	1488	78%	2469	74%	9.07	65%
Total	1899	100%	3329	100%	13.93	100%

3.3 SIGNIFICANT EXPLORATION ACTIVITIES (REQUIREMENT 3.1)

3.3.1 GEOLOGICAL AND EXPLORATION OPERATIONS FINANCED FROM STATE BUDGET

The following operations have been conducted in 2015 using state budget funding:

- 1:50,000 geological mapping. In scope of general prospecting, 46 projects have been implemented. 3 of these projects were implemented together with other foreign countries, while 43 of the projects were implemented by domestic companies.
- UGZ 1:200,000 geological mapping
- Thematic studies
 - o South Gobi-2012, complete 1:200000 hydro-geological and geo-ecological maps, geo-ecological evaluation;
 - o Rare elements of earth-2013, metallogenic study and study of future trends of rare elements in Mongolian territory;
 - o Fund of geological data;
 - o Асгеп 3D, united processing of space photos;
 - o Ores of conglomerate sulfides of western Mongolia and future trends;
 - o Metallogeny of Mongolian regions, occurrence and locations of various mineral deposits
- Collaboration projects
 - o Mongol Altai-50, geological mapping 1:50000 and general prospecting by Mongolian-Czechoslovak team;
 - o Khasagt-50, Mongolian-Poland project `the geological study of Khasagt area and prospecting operations`;
- Geophysical study
 - o Aero-geophysical study of 5 channels of 1:200000 to be conducted on Altai-1 area,
 - o Aero-geophysical study of 5 channels of 1:200000 to be conducted on Altai-2 area.

The following are the projects which were implemented from state budget in 2015. Duration of their geological assignments was extended and the projects to be discussed by the Meeting of the Professional Council in 2015 are as follows:

№	Reports of final results were confirmed		Term of geological assignments was extended		To be discussed by the Meeting of Professional Council of Minerals	
	Company name	Project name	Company name	Project name	Company name	Project name
1	"Altai Negdel" LLC	Bardam uul-50	"Sudalt mana" LLC	Bayandalai-50	"Talst dul" LLC	Tsogt-50
2	"Altai Negdel" LLC	Khavirga uul-50	"Mongol zurkh setgel" LLC	Ulaanbadrakh-50	"Gobi exploration" LLC	Emeeltsegiin nuruu
3	"Khuvsgul Geology" LLC	Ungutiin nuruu-50	"Gurvan talst" LLC	Onts uul-50	"Geo magnate resource" LLC	Jinst -50
4	"Khuvsgul Geology" LLC	Rashaant-50	"Talst dul" LLC	Tsogt-50	"Jinst uul" LLC	Togoo khairkhan-50
5	"Geomin" LLC	Ikheriin khyar-50	"Gobi exploration" LLC	Emeeltsegiin nuruu	"GGIS" LLC	Khairkhan uul-50
6	"Ereen chuluu" LLC	Ulaan del	"Geo magnate resource" LLC	Jinst-50	"Tsagduultain undarga" LLC	Burkhant tolgoi-50
7	"SGH" LLC	Zamlin bogd-50	"Tsagduultain undarga" LLC	Burkhant tolgoi-50		
8	"GGIS" LLC	Khavtgai uul-50	"Terguun resource" LLC	Khukh nuur -50		
9	"Tsahiur Orgil" LLC	Serven uul-50	"Plagioclass" LLC	Devsegiin nuruu-50		
10	"Geo erel" LLC	Sain tsagaan-50	"GCS" LLC	Shiveet-50		

№	Reports of final results were confirmed		Term of geological assignments was extended		To be discussed by the Meeting of Professional Council of Minerals	
	Company name	Project name	Company name	Project name	Company name	Project name
11	"Geo erin" LLC	Khamarin tolgod-50	University of Sciences and Technology	GHE-2013		

List of the projects which completed 2nd and 3rd year site operations, and commenced sales in 2015:

	Company name	Project name	№	Company name	Project name
1	State owned LLC 'Center of the Geological Studies'	Altain nuruu-50	20	Gurvan talst LLC	Khailaast uul-50
2		Shiveet uul-50	21	Talst dul LLC	Bayan inder-50
3		Tuv Asia-3D	22	"Tsgaduultain undarga" LLC	Burkhan tolgoi-50
4		Fund of geo data-2013	23		Dornod Mongolia-YII-200
5		Reading of space pictures-2013	24	Sudalt mana LLC	Chandmani uul-50
6		Mongol Altai-50	25	Geo oron LLC	Delgerkhaan -50
7		Tsogt tsetsii-50	26		Tsul sulfide BM-2014
8	Altai negdel LLC	Bulgan-50	27	University of Science and Technology	GHSHE-2013
9		Duruu nuur-50	28		Metallogeni-2014
10		Ar chuluut-50	29	Erdeniin erel LLC	Ulaan tolgoi-50
11		Buural khairkhan-50	30	Mintores LLC	Ergeliin zoo-50
12	Khuvsgul Geology LLC	Khukhulzugiin gobi-50	31	Litolog LLC	Toirmin khundii-50
13		Khulgarin els-50	32	Geosan LLC, Summit LLC	Altai-1
14		Takhilt-50	33	Magnetic survey LLC	Altai-2
15	Geomin LLC	Suman khad-50	34	Terguun resource LLC	Khukhnuur-50
16	Magma mines LLC	Tuv Mongol-200-IY	35	Plagioclass LLC	Devsegiin nuruu-50
17	"SGIS" LLC	Dornod Mongol-200-IY	36	GCS LLC	Shiveet-50
18	Ereen chuluu LLC, Darkhan myandar uul LLC	Uliin ovoot-50	37	GGIS LLC	Khairkhan uul-50
19	Ereen chuluu LLC	Tuv Mongol-Y-50	38	Naimanbat LLC	Budarin chuluu-50

The following funds have been financed from state budget to implement the above-mentioned projects including:

Project name	Budget to fund in 2015	Remained fund of 2014	Total funding of 2015	Dislocated remains of Project
UGZ-200 project	525,013,987	175,487,332	330,456,519	19,070,135
1:50000 Project	7,100,044,899	1,312,804,799	5,556,739,523	230,500,577
Project of thematic studies	3,431,566,995	197,798,620	2,970,642,559	263,125,816
Project of collaboration	284,474,119	58,845,149	225,626,866	2,104
Total	11,341,100,000	1,744,935,900	9,083,465,467	512, 698,633

3.3.2 PRIVATELY FUNDED EXPLORATION ACTIVITY

The holders of exploration licences paid 104.7 billion MNT for geological and exploration operations in 2015 and the classifications of total expenses are as follows:

Million MNT	2010	2011	2012	2013	2014	2015
Preparation actions	4,677.5	5,051.8	4,882.8	3,842.3	3,146.2	2,988.7
Mapping	2,270.0	3,957.4	4,714.8	2,328.8	3,006.8	2,303.2
Prospecting	2,862.7	6,880.8	3,925.7	2,530.5	2,535.4	1,575.2
Sampling	2,561.0	5,684.4	6,603.1	2,659.3	2,259.7	2,041.1
Geophysical work	20,581.7	28,835.7	23,573.7	13,427.2	12,413.9	10,692.5

Excavating work	4,495.4	7,389.5	5,153.1	2,530.8	4,887.8	2,780.2
Drilling	107,941.6	190,240.1	208,018.8	82,575.7	86,233.0	49,461.5
Geochemical work	377.0	1,562.5	3,292.1	2,133.4	746.0	779.1
Laboratory	7,693.4	19,023.1	22,152.4	10,889.8	10,490.8	6,680.6
Topographic-geodesy work	1,680.3	5,778.5	2,348.2	1,880.4	1,357.9	1,634.3
Hydro-geological work	510.3	2,571.0	4,116.9	751.6	2,781.3	2,549.9
Transport	5,724.2	6,526.7	6,685.8	5,182.5	3,780.9	3,079.8
Stable processing	4,609.4	10,475.1	18,540.5	11,233.7	21,563.1	11,005.0
Environment reclamation	675.1	699.8	1,424.7	1,382.0	2,015.8	1,746.6
Area sampling	1,547.9	2,140.3	862.1	416.6	1,484.7	428.9
Geo-morphology	-	-	11.0	25.3	-	20.6
Archaeology	-	-	1,070.9	528.3	123.0	96.8
Palaeontology	-	-	925.4	448.9	88.3	43.3
Other	4,752.0	3,280.7	8,092.8	5,328.7	1,506.9	4,791.0
Total	172,959.5	300,097.4	326,394.8	150,095.8	160,421.5	104,698.3

The companies with the highest expenditure on geological and exploration operations in 2015 from private funding were:-

No	Names of companies	Licence number	Area volume, hectare	Total expenses, mln MNT	Types of minerals
1	"Shansi coke and coal chemicals Union Mongolia" LLC	XV-014859	12268.62	4,371.2	Coal
2	"Oyut-Ulaan" LLC	XV-017387	6647.05	4,268.4	Gold
3	"FBSP" LLC	XV-013598	183145.4	4,221.2	Copper
4	"Kojegobi" LLC	XV-011946	36300.59	4,073.7	Uranium
5	"Kojegobi" LLC	XV-011921	17783.99	2,980.0	Uranium
6	"OGCHL" LLC	XV-007560	2000.03	2,977.3	Copper
7	"Bold Tumor Eroo gol" LLC	XV-008888	3393	2,880.7	Iron
8	"Alishaa khairkan" LLC	XV-018976	1304.81	2,430.8	Graphite
9	"Millennium Storm" LLC	XV-015446	11801.37	2,268.7	Gold
10	"Kharanga Sumber" LLC	XV-014568	6467.48	2,092.7	Magnesium
11	"Black Rock" LLC	XV-013580	1080.16	2,087.1	Coal
12	"Alishaa khairkan" LLC	XV-011602	290322.33	2,079.7	Graphite
13	"AGM mining" LLC	XV-017452	111247.8	1,874.8	Copper, gold
14	"Biligt Khairkhan uul" LLC	XV-020097	27349.74	1,818.2	Coal
15	"AGM mining" LLC	XV-014917	6475.74	1,583.0	Gold
16	"Eco-Alt" LLC	XV-011398	2228.1	1,573.6	Gold
17	"Ilch khujirt" LLC	XV-012221	4759.17	1,530.3	Coal
18	"Kojegobi" LLC	XV-012251	91076.6	1,336.1	Uranium
19	"Kojegobi" LLC	XV-004817	38450	1,319.6	Uranium
20	"Tunshan shiandon" LLC	XV-014091	1073.84	1,303.3	Molybdenum
21	"Altire Gold" LLC	XV-014916	999.6	1,234.6	Gold
22	"Biligt Khairkhan uul" LLC	XV-020098	23062.99	1,143.9	Coal
23	"Orient" LLC	XV-018708	4903.59	1,135.1	Copper
24	"Orchlon ord" LLC	XV-014569	1240.93	1,039.6	Copper
Total				53,623.6	

3.3.3 PRODUCTION

In 2015, despite the decline in the global metal prices, over 250 mines and extraction plants operated actively, and mining sector made up 16.7 percent of GDP, 63.2 percent of total industrial production and 87.8 percent of export revenue of 2015. (Source: <http://en.montsame.mn/mining/%E2%80%9Cmining-made-788-percent-total-export-revenue%E2%80%9D>)

Mineral and oil production volumes in 2015 and preceding years are shown in the table below.

Minerals	Unit of measurement	2013	2014	2015	Increase or - decrease in 2015
Coal	thousand ton	30,123.3	25,287.8	24,205.9	-4.3%
Crude oil	thousand barrel	5,128.9	7,405.3	8,769.3	18.4%
Copper, with concentrate	thousand ton	803.0	1,080.4	1,334.7	23.5%
Molybdenum, with concentrate	ton	3,732.1	4,054.0	5,207.0	28.4%
Gold	ton	8.9	11.5	14.6	27.0%
Fluor spar	thousand ton	161.7	303.0	183.5	-39.4%
Fluor spar concentrate	thousand ton	76.4	71.9	47.3	-34.2%
Iron ore	thousand ton	5,011.9	6,293.1	4,273.6	-32.1%
Iron ore concentrate	thousand ton	6,124.0	3,967.4	1,899.8	-52.1%
Zinc concentrate	thousand ton	104.1	93.2	89.6	-3.9%
Tungsten concentrate	ton	-	1,024.2	1,024.0	0.0%
Salt mining	ton	657.6	1,378.4	1,685.6	22.3%

Source: Mongolian statistical yearbook 2015, page 358

The value of mineral and oil production over the same period is set out in the table below.

Mineral commodities /million MNT/	2013	2014	2015	Increase or - decrease in 2015
Mining of coal and lignite	1,461,124.9	1,081,737.7	975,148.3	-9.9%
Extraction of crude petroleum	770,940.1	1,125,185.0	755,544.4	-32.9%
Mining of metal ores	3,273,705.6	6,467,457.5	6,412,398.1	-0.9%
Other mining and quarrying	113,897.3	137,919.3	122,230.5	-11.4%
Mining support service activities	480,087.5	458,986.5	420,330.0	-8.4%
Total	6,099,755.4	9,271,286.0	8,685,651.3	

Source: Mongolian statistical yearbook 2015, page 353

3.3.4 EXPORTS

Total exports from Mongolia in 2015 were USD 1,104.9 million, down 19.1 percent on 2014, mainly affected by the decrease in mineral commodity exports (down USD 1,113.1 million). Source: *Statistics bulletin - 2015, page 11*

The volumes of major exported mineral products were as follows:

Exports of mineral products	2013	2014	2015
Crude petroleum oil /million barrel/	5.2	6.9	8.1
Gold, in semi-manufactured forms /ton/	7.6	10.0	11.3
Copper concentrates /thousand ton/	649.8	1,379.0	1,477.8
Coal / thousand ton /	18,373.1	19,499.0	14,472.6
Iron ores and concentrates / thousand ton /	6,724.5	6,324.7	5,065.1

Source: Mongolian statistical yearbook 2015, page 287

Mining exports represent the largest proportion of total exports from Mongolia:

<i>USD millions</i>	Total national exports	Mining sector exports	Mining exports as a %age of total exports
2014	5,774	5,197	90.0%
2015	4,669	4,099	87.8%

Source: Macroeconomic Policy Division, Economic Policy Department, Ministry of Finance

3.4 OIL AND GAS

3.4.1 RESOURCES

The Mineral Experts Council of Mongolia has identified oil and gas resources in three areas. As of October 1, 2016, these resources were as follows:

#	Name of sites	"Confirmed" resource million ton	Confirmed extraction million ton
1	Toson-Uul XIX exploration site	179,02	20.14
2	1997 PSA	26,05	2,07
3	Tamsag XXI	127,5	21,018
Total		332,64	43,25

3.4.2 PETROLEUM LICENSING

3.4.2.1 Governance

The award of petroleum licences is governed by the Petroleum Law, and permission to explore and extract oil and gas is dependent upon a company signing a Production Sharing Agreement (PSA). The standard terms currently applying for a PSA may be found <http://www.legalinfo.mn/law/details/215>.

The government body responsible for issue of licences and maintaining a record of licences issued is the Petroleum Authority of Mongolia¹⁴.

3.4.2.2 Licence register (Requirement 2.3)

The MRAM provided a list of nineteen companies which have made Petroleum Production Sharing Agreements covering 25 exploration sites with a strategic oil deposit:-.

#	Sites	Contracted companies	Agreement date	Kind of licences
1	PPSA - 97	Donshen Oil Mongolia LLC	24 Jan 1997	Production licence
2	Tamsag XXI	Petrochina Dachin Tamsag Mongol LLC	21 Dec 1995	Production licence
3	Buir XXII		29 Mar 1993	Production licence
4	Toson uul XIX		26 Apr 1993	
5	Tukhum X /Урд/	Mongoliin Alt LLC	6 Jul 2012	Exploration licence
6	Nyalga XVI	Sheymon Resource LLC	18 Apr 2007	Exploration licence
7	Sulinkheer XXIII	Shunkhlai Energy LLC	22 May 2009	Exploration licence
8	Galba XI	Zon Khen Yu Tian LLC	27 Apr 2009	Exploration licence
9	Uvs I	Mongolia Gladwill Uvs Petroleum LLC		Exploration licence

¹⁴ (reference: <http://english.pam.gov.mn>)

#	Sites	Contracted companies	Agreement date	Kind of licences
10	Matad XX	Petro Matad LLC	26 May 2006	Exploration licence
11	Bogd IV	Capcorp Mongolia LLC	8 Jul 2009	Exploration licence
12	Ongi V			
13	Dariganga XXIV	Apexpro Investment LLC	9 Feb 2011	Exploration licence
14	Khukhnuur XVIII	"N P I" LLC	6 Jul 2009	Exploration licence
15	Bayantumen -17	Magnai Trade LLC	23 Dec 2009	Exploration licence
16	Tsaidam-26	Space Geological Exploration LLC	10 Jul 2009	Exploration licence
17	Tuhum /north/- 10			Exploration licence
18	Nomgon IX		20 Jan 2014	Exploration licence
19	Tsagaan Els-13	Gobi Energy Partners	21 Apr 2009	Exploration licence
20	Zuunbayan - 14			Exploration licence
21	Kherlen Tokhoi XXVIII	Hong Kong Wellpeck Industrial LLC		Exploration licence
22	Borzon-7	Empire Gas Mongolia	25 Jun 2009	Exploration licence
23	Sukhbaatar-27	Wolf Petroleum LLC	2 Jan 2012	Exploration licence
24	Tariach- 15	China Golden Sea	2 Feb 1997	Exploration licence
25	Khar-Us II	Renova Ilch LLC	10 Sep 2015	Exploration licence

Please refer to Appendix 16(i) for information on the coordinates of these areas.

3.4.2.3 Process for award of petroleum licences

There are three types of petroleum licences:

- Search licence
- Exploration licence (requires PSA); and
- Production licence – (requires PSA)

The process for applying for a petroleum licence is set out in the Petroleum Law, as follows:

3.4.2.3.1 Applying for a search licence:

- 1) A legal entity shall submit its application to prospect for petroleum and unconventional petroleum to the Petroleum Authority.
- 2) The Petroleum Authority shall review a prospecting application for a period of 30 days and issue its decision.
- 3) In the event two or more legal entities have filed a prospecting application for a given area, the Petroleum Authority shall perform a comparative assessment and issue its decision.
- 4) The Petroleum Authority shall take the following into account when concluding a prospecting contract:
 - a. whether or not the applicant has technical, professional, and financial capability and the technology;
 - b. whether or not the methods and methodology of the prospecting work meet international standards; and
 - c. the environmental protection and restoration program.

3.4.2.3.2 Applying for an exploration licence

1. A contractor specified in clause 17.6 of this law shall submit its application for an exploration licence to the Ministry of Mining.

2. The Ministry of Mining shall review the documents specified in clauses 18.1 and 18.2 of this law and issue or extend the term of an exploration licence to a body mentioned below for a period of exploration:

- an production sharing agreement concluded outright based on the results of prospecting work; or
- upon holding an open tender pursuant to Article 19 of this law, a contract concluded pursuant to Article 21 of the this law.

3.4.2.3.3 Applying for a production licence

1. Within 30 days of the Ministry of Mining issuing a decision accepting the reserves, a contractor shall apply for an exploitation licence.
2. A contractor shall obtain an exploitation licence before start of exploitation and the exploitation period shall start on a day of issue of the licence.
3. The Ministry of Mining shall issue an exploitation licence in accordance to the relevant laws.

MRAPM was requested to provide information on the duration of PSAs and their expiry dates but has not responded.

3.4.3 PSA CONCLUDED IN 2015 (REQUIREMENT 2.2)

One PSA was concluded in 2015, between Renova Ilch LLC and MRAM. The process for issue of licences and PSAs described above was followed.

In accordance with a letter from the Minister to the Independent Administrator in connection with the 2013 EITI Report, and subsequent legislation in 2014, it is our understanding that these documents should be publicly available.

We were unable to find a way to obtain public access to PSAs concluded in 2015, and accordingly requested from MRAPM a copy of all PSAs concluded in 2015.

MRPAM noted in its response letter that “As a party of PSA, MRPAM will disclose the PSA once the contractor company agrees to disclose it”.

It is our understanding that the PSA awarded in 2015 should be made public; it might be expected that MRPAM would obtain all necessary consents. Nevertheless, following the response from MRPAM we requested copy of the 2015 PSA from the company, “Renova Ilch” LLC. At the date of writing this report, we have not received a copy.

3.4.4 CONTRACT PUBLICATION (REQUIREMENT 2.4)

The government has raised no objection to disclosure of PSAs and in 04 July, 2012 passed a resolution (Number 222) requiring PSAs to be published.

Information on Petroleum Production Sharing Agreements was not updated in website of MRPAM¹⁵ since 1st of October 2014. Moreover, some important information on application date, licence issue date, licence duration, area coordinates, licence type and production type not published by Mineral Resources and Petroleum Authority.

¹⁵ <http://www.pam.gov.mn/content/Бүтээгдэхүүн-Хуваах-Гэрээний-дагуу--газрын-тосны-хайгуулын-үйл-ажиллагаа-явуулж--10135.shtml>

3.4.5 PRODUCTION

During the last 3 years, oil production volume has been increasing consistently.

/in thousand barrel/	2013	2014	2015*
Crude oil	5,128.9	7,405.3	8,769.3

Source: Mongolian statistical year book 2015, page 358, Preliminary performance

On 1st February 2016, the Government decided to build an oil refinery, manufacturing plant and oil transportation pipeline. That manufacturing plant will have a capacity of 2.5 million tons fuel annually, and is designed to be able to fulfil domestic demand (Mongolian total annual consumption of fuel is 1.2 million tons).

3.4.6 EXPORTS

During the last 3 years, volume of crude oil export increased as shown below.

/ in thousand barrel/	2013	2014	2015*
Crude oil	5 243.8	6 885.1	8 135.2

Source: Mongolian statistical year book 2015, page 290, Preliminary performance

3.5 ECONOMIC CONTRIBUTION FROM THE SECTOR

3.5.1 SIZE OF THE EXTRACTIVE INDUSTRIES

Output from the mining and quarrying industries declined between 2014 and 2015, and since its share of GDP remained constant in these years, overall industrial output declined.

The volume of the gross industrial output from 2012 to 2015 was shown below.

Gross industrial output Billion MNT	2012	2013	2014	2015
Manufacturing	3,012.1	3,212.8	4,042.7	3,741.1
Electricity, gas, steam and air conditioning supply	824.1	904.5	842.8	1,024.6
Water supply, sewage, waste management and remediation	198.1	226.8	246.2	283.1
Non mining	4,034.3	4,344.1	5,131.7	5,048.8
Mining and quarrying	5,787.0	6,099.8	9,271.3	8,685.6
Total	9,821.3	10,443.9	14,403.0	13,734.4
Proportion of mining and quarrying	58.9%	58.4%	64.4%	63.2%

Source: Mongolian statistical year book 2015, page 353, Preliminary performance

The percentage of extractive sector in the Gross Domestic Product is as follow:

Mining and quarrying - GDP	2012	2013	2014	2015
Billion MNT	2,742.80	2,849.40	3,661.00	3,867.70
Proportion within GDP	16.40%	14.90%	16.50%	16.70%

Source: Mongolian statistical year book 2015, page 209

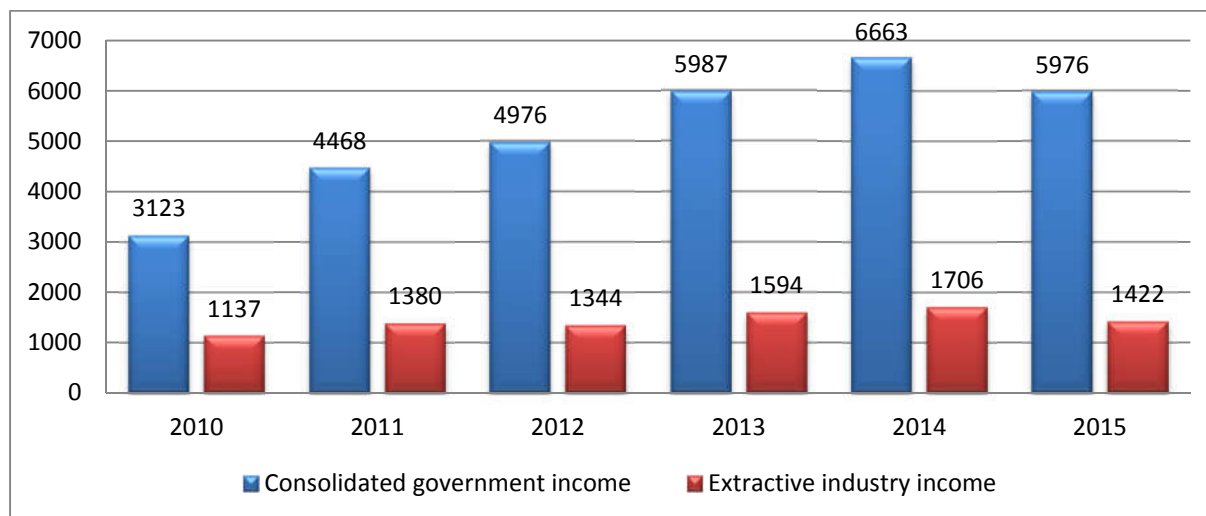
3.5.2 TOTAL GOVERNMENT REVENUES FROM THE EXTRACTIVE INDUSTRIES

For the years of 2010-2014, revenue generated in Consolidated Budget of Mongolia (consists of national budget, sub-national budget, human development fund and social insurance fund) from

extractive industry increased from 1.1 trillion MNT to 1.7 trillion MNT; however decreased down to 1.4 trillion MNT in 2015.

Total revenue generated in consolidated budget and revenue from Extractive industry is as follows:

(Billion MNT)



Source: Extractive industry incomes are obtained from EITI reconciliation reports and consolidated government income are sourced from Ministry of Finance.

In 2015, Government reported receipt of 1,546.4 billion MNT from 2415 companies. Out of these receipt from companies, excluded material receipts from 26 license holders; but non-extractive companies. As a result, total Government receipts after reconciliation is 1,422.2 billion MNT.

3.5.3 EXPORTS FROM THE EXTRACTIVE INDUSTRIES

See sections 3.2.3 and 3.3.4

3.5.4 EMPLOYMENT IN THE EXTRACTIVE INDUSTRIES

According to the National Statistics Office of Mongolia, 42,600 employees worked in the mining sector in 2015.

The number of employees¹⁶ working in the mining sector decreased by 9,400 in 2014, but increased by 1,700 in 2015. The number of illegal artisanal miners was not included in the estimate of mining employment.

Thousands persons	2012	2013	2014	2015
Mining and quarrying sector	46.7	50.3	40.9	42.6
Total employment	1,056.4	1,103.6	1,110.7	1,151.2
Mining and quarrying sector proportion within total employment	4.4%	4.6%	3.7%	3.7%

Source: Mongolian statistical year book 2015, page 54

In 2015, the total number of foreign citizens providing services was 16,643; of these, 23.7% or 3,944 worked in the mining and quarrying sector.

¹⁶ Source: Introduction of Labor market statistical data, 2015

In 2015, the total number of foreign citizens employed in Mongolia was 6,779, and 21,4% or 1,499 of them worked in the mining and quarrying sector. (Source: *Introduction to labour market statistics, 2015*)

3.6 GOVERNMENT INSTITUTIONS

The names of government bodies with the most involvement in the extractive industries along with their descriptions are provided below.

In accordance with Mongolian Government resolution #382 issued at 27th of July 2016, ministries were re-organized but no changes made in 2015.

Re-organized by resolution #382 of 15th of December 2014 ¹⁷		Re-organized by resolution #3 of 27th of July 2016 ¹⁸	Websites
1	Ministry of Mining	Ministry of Mining and Heavy Industry	http://www.mmhi.gov.mn/
2	The Mineral Resource Authority	Mineral Resources and Petroleum Authority of Mongolia	http://www.mrpam.gov.mn/
3	Petroleum Authority of Mongolia		
4	Ministry of Environment, Green Development and Tourism	Ministry of Environment and Tourism	http://www.mne.mn/
5	Ministry of Labour	Ministry of Labour and Social Protection	http://www.khun.gov.mn/
6	Tax Administration	Tax Administration	http://www.mta.mn/
7	Mongolian Customs Office	Mongolian Customs Office	http://www.customs.gov.mn/
8	National Audit Office	National Audit Office	http://www.audit.mn/
9	Nuclear Energy Commission	Nuclear Energy Commission	http://www.nea.gov.mn/
10	State Property Agency	State Agency for Policy Coordination on State Property	http://www.pcsp.gov.mn/

3.6.1 MINISTRY OF MINING

The main purpose of the Ministry of Mining and Heavy Industry is to establish a Balanced Economy with multi pillar structure and increase the Mineral Resource Fund by means of development of a Transparent and Responsible Mining and Heavy Industry.

Its main duties are to develop and formulate laws, regulations, policies, Medium and Long-term strategy, programs and project development concerning on Mining sector, Fuel and Oil sector, Geological sector and Heavy Industry sector; to analyse implementation of laws, policies, programs and projects; to expand sector's external cooperation; to support development of finance, economic and investment policies.

3.6.2 MINERAL RESOURCE AUTHORITY

The Authority is a government agency within the Ministry of Mining that holds responsibility for processing licence applications and issuing exploration and mining licences.

The Authority's other tasks can be summarized as follows:

¹⁷ Source: <http://www.legalinfo.mn/annex/details/6597?lawid=10791>

¹⁸ Source: <http://legalinfo.mn/annex/details/7381?lawid=12053>

- To support the government administration in formulating development policies by providing the necessary information and creating a favorable environment in which to implement policy guidelines and increase investment in this sector.
- To provide services related to exploration and mining special permits in order to implement the relevant legislation, including the Minerals Law and the Licensing Law.

3.6.3 PETROLEUM AUTHORITY OF MONGOLIA

The objective of the Petroleum Authority of Mongolia is to inform and assist government policies to support the development of the oil industry and encourage investment. The Authority aims to provide clients with an effective and fair service. The current priorities of the Authority include implementing policies of oil extraction and refining, support conventional and non-conventional oil exploration activities, and increasing processing capacity.

The Authority presently has seven separate divisions and departments working towards these objectives: administration, exploration.

3.6.4 MINISTRY OF ENVIRONMENT, GREEN DEVELOPMENT AND TOURISM

The Ministry is responsible for receiving and reviewing the environmental protection plan that exploration licence holders are required to submit within 30 days of receiving their licence.

Furthermore, the Ministry is responsible for holding the amount equal to 50% of companies' environmental protection budgets for each particular year in order to secure their compliance with their respective environmental protection plans. These funds may be used by the Ministry.

3.6.5 MINISTRY OF LABOUR

The Ministry of Labour is responsible for labor engagement and poverty reduction, improvement of working conditions and living cost issues, foreign nationals' employment within Mongolian territory and export of labor force.

The Ministry aims to develop and implement policies to promote employment, to facilitate decent working environment, to develop human resources through skill and professional development, improved competitiveness and flexibility, to improve quality employment services, and to promote small and medium enterprises.

3.6.6 GENERAL DEPARTMENT OF TAX ADMINISTRATION

As stipulated in the General Law of Taxation, the Mongolian National Tax Administration comprises the General Department of Taxation, tax offices of the aimags, the capital city, and the districts, and the state tax inspectors in soums. The Authority is responsible for:

- Organizing and implementing tax legislation; providing taxpayers with information and advice, and conducting training and outreach
- Supervising compliance with tax legislation
- Collecting revenue for state and local budgets

According to its website, the Tax Authority is currently midway through a five-year programme to reach the "world taxation standard". The goals of the Development of the National Tax Administration Programme include creating the legal environment for an effective knowledge- and

green-based economy, to develop tax administration based on information technology innovations, and to introduce international experience and instruments to develop risk management techniques and to audit risky taxpayers.

Within taxation reformation a framework, Value Added Tax Law was amended at 9th of July 2015 by Mongolian Parliament. In accordance with that law, electronic payment document recording system was implemented from 1st of January 2016. Sales incomes of Mongolia taxpayers become transparent and increase shrinking of shadow economy by means of goods and service sales in Mongolia are recorded into electronic document registration system.

3.6.7 MONGOLIAN CUSTOMS OFFICE

The Mongolian Customs Office¹⁹ is in the process of expanding its remit from the traditional role of collecting duties and taxes for the benefit of the state budget to including special roles of upholding social wellbeing, and to ensuring Mongolian economic security.

Under a programme assisted by the Asian Development Bank and the Government of South Korea, the Office is current reforming itself from an administration organization into a service provider. Key objectives include creating an efficient channel for clients to address any difficulties that they have encountered in cross-border trade bureaucracy.

In recent years, major reforms have been taking place in the operation procedures of the Mongolian Custom Office. By making customs control, customs clearance procedures automatic and online, custom workers' activities will become transparent thereby quick and efficient services free from corruption and bureaucracy will be delivered. (source: <http://www.customs.gov.mn/>)

3.6.8 NUCLEAR ENERGY COMMISSION

The Nuclear Energy Commission is responsible for utilization of nuclear energy, introducing of nuclear technology, coordinating scientific research on nuclear energy in the context of State policy of Mongolia, regulatory review and assessment concerning nuclear and radioactive safety and security.

The Commission functions with three Departments as Administration Department, Nuclear Technology Department, Nuclear and Radiation Regulatory Department. The major actions and functions to be implemented by this Agency are:

- Implement the State policy on exploitation of radio-active minerals and nuclear energy, utilization of nuclear technology and ensuring the nuclear and radiation protection, safety and control,
- Organize the actions to process the radio-active minerals,
- Use of radio-active minerals, nuclear energy and utilization of nuclear technology,
- Ensure nuclear and radiation safety and take measures to have revealed violations and eliminate them.

3.6.9 MONGOLIAN NATIONAL AUDIT OFFICE

The National Audit Office is the supreme audit institution of Mongolia that functions under the Mongolian legislation, other laws and resolutions of Mongolian Parliament. It is not permitted to

¹⁹ Source: <http://www.customs.gov.mn/>

monitor the actions of National Audit Office and the General Auditor of Mongolia and assign any assignment to them except the officials and organizations as the Head of National Security Council and Mongolian Parliament. National Audit Office has the full authority to conduct audit on the functions of the governmental organizations regardless their funding sources except Mongolian Parliament.

3.6.10 STATE PROPERTY COMMITTEE

The State Property Committee is the owner of 89 companies and entities which are owned or majority-owned by the Mongolian state. The committee has duty to keep transparency of stated owned entities and its privatization. State property committee is Government entity which in charge of responsibilities on owning, using and protecting the state property.

3.7 STATE PARTICIPATION IN THE EXTRACTIVE SECTOR

3.7.1 STATE OWNED ENTERPRISES (SOES)

The EITI Standard (2.6.a) defines a state owned enterprise, for purposes of EITI reporting, as “a wholly or majority government owned company that is engaged in extractive activities on behalf of the government.” The Standard requires that the EITI report contain various information about SOEs, including “disclosures from the government and SOE(s) of their level of ownership in mining, oil and gas companies operating within the country’s oil, gas and mining sector, including those held by SOE subsidiaries and joint ventures, and any changes in the level of ownership during the reporting period”.

In 2015, no changes occurred in the state ownership of SOEs and companies with state ownership.

3.7.1.1 State owned enterprises in Mongolia

Pursuant to Resolution 12 of the Parliament of Mongolia in 2016 and Resolution 4 of the Government in 2016, the Procurement Agency was dissolved and its function was transferred to Authority for State Property Policy and Management in accordance with Article 53 of *Law on Procurement of Goods, Works and Services with State and Local Funds*.

Article 55 of *Law on State and Local Properties* stipulated that a state owned enterprise may be privatized by reorganizing into the company and selling its shares of the stock. The pertinent decision shall be issued by the central authority in charge of state property policy and management. /This part was revised on November 26, 2016 and July 21, 2016/

Furthermore, Article 56 of the above law promulgated that the state owned shares of the stock of the company or state owned enterprise or legal entities with the state ownership shall be sold in a free or packaged form of the shares through or outside the stock exchange. /This part was revised on November 26, 2016 and July 21, 2016/

According to the Authority for State Property Policy and Management (information provided on 20th October 2016), a total of 89 enterprises and legal entities with state ownership was registered. The table below illustrates the breakdown of those entities:

Classification	Numbers
State-owned plants	24
Limited liability companies with state ownership	8
JSC with state ownership	44

Share-holding companies with state participation	3
Limited liability companies with state participation	2
Share-holding Group	1
Companies without representation of the Policy and Regulation Division of State Property	7
Total	89

Source: Policy and Regulation Division of State Property

Companies owned by aimags/soums are not included to the above List.

3.7.1.2 State owned enterprises in the mining sector

There are 16 organizations with state-ownership which operate in extractive sector as of October 10, 2016 according to the information provided by MRAM and PAM. The table below summarises the information provided and highlights the companies which were, and those which were not, included in the EITI reconciliation.

In addition, the government owns Mon Atom LLC, which operated in the uranium sector, but transferred its licences to Mon Czech LLC on 06 July, 2015.

No	Registration number	Companies	Whether included to reconciliation	Minerals	Property type	Numbers of licences
Companies included in reconciliation						
1.	5124913	Erdenes Mongol LLC	Yes	Various	100% state-owned	4
2.	2004879	Shivee-ovoo JSC	Yes	Coal	Erdenes Mongol LLC 90%, others 10%	1
3.	2008572	Baganuur JSC	Yes	Coal	Erdenes Mongol LLC 75%, others 25%	3
4.	5435528	Erdenes Tavan Tolgoi JSC	Yes	Coal	Erdenes Mongol LLC 100%	8
5.	2074192	Erdenet mining corporation LLC	Yes	Copper, molybdenum	GOM 51%, Mongolian copper corporation LLC 49%	7
6.	2550466	Mongolrostdmet LLC	Yes	Gold, fluorspar, coal, silver	GOM 51%, Mongolian copper corporation LLC 49%	31
7.	2051303	SOE 'Darkhan Metallurgical Plant'	Yes	Iron ore	100% state-owned	3
Companies not included in the reconciliation						
8.	9011706	Correction Faculty No.439 in Bulgan province	No	Construction materials	State-owned company	1
9.	9103619	Implementing Division of Court Verdicts under General Implementing Department	No	Construction materials	State-owned company	1
10.	9069798	Correction Faculty No. 443 under General Implementing Department	No	Coal	State-owned company	1
11.	2076675	Gravel Plant of UB Railway	No	Construction of materials, gravel	GOM 50%, Russian Government 50%	1
12.	2683857	Avdrantkhaikhan LLC under General Implementing Department	No	Basalt	State-owned company	1
13.	2053152	SHTN	No	Construction materials	State-owned company	1
14.	9073523	Implementing Division of Court Verdicts in Khentii province	No	Construction materials	State-owned company	3
15.	5976723	Mon-Chezk Uranium LLC	No	Uranium	GOM 51%, Government of Chezk 49%	1
16.	9102981	Mining Rescue Division	No	Coal	State-owned company	2

Source: Mineral Resources and Petroleum Authority of Mongolia

There are the following companies with local ownership which held exploration and mining licences:

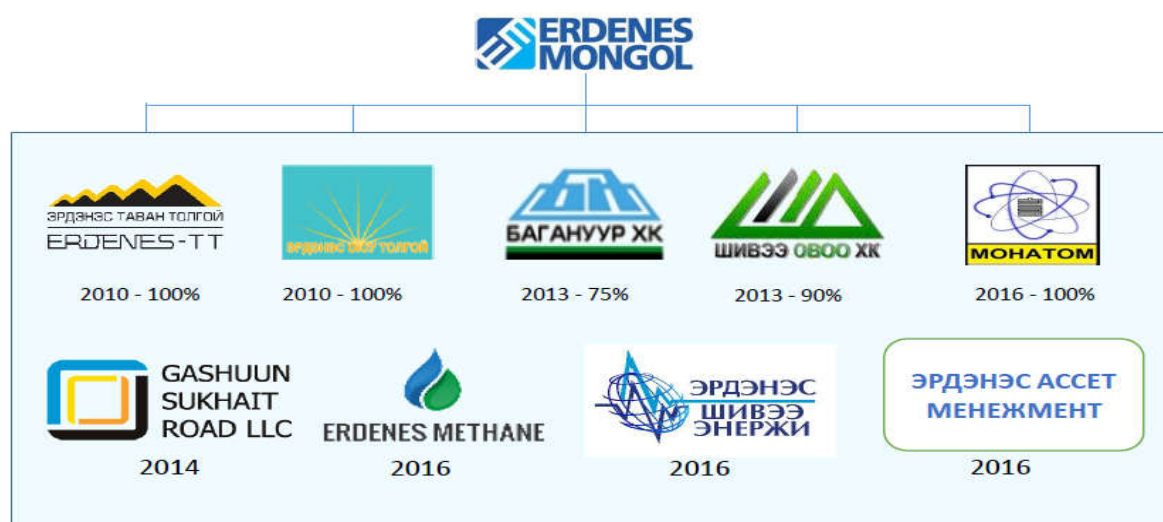
No	Registration number	Companies	Whether included to reconciliation of 2015	Minerals	Property classification	Number of licences
1.	2016656	Tavan tolgoi JSC	Yes	Coal	Local ownership 51%, private ownership 49%	1
2.	2034859	Mogoin gol JSC	Yes	Coal	Local ownership 51%, private ownership 49%	1
3.	2014491	Bayanteeg JSC	Yes	Coal	Local ownership 70%, private ownership 30%	1
4.	3675416	Sukhbaatar mine	No	Wolfram	Company with local ownership	1

Depend upon materiality amount of its payments, 7 national state-owned companies and 3 local state-owned covered in the reconciliation. Otherwise, 9 national state-owned entities and 1 local-owned entity were not selected in the reconciliation.

3.7.1.3 Erdenes Mongol LLC

Erdenes Mongol is a special purpose company created in order to represent GoM's stake in developing and owning nationally strategic mineral deposits within the territory of Mongolia. It holds equity shares in nine of Mongolia's largest mining assets:-

- Oyu Tolgoi LLC (indirectly via Erdenes Oyu Tolgoi LLC),
- Erdenes Tavan Tolgoi JSC,
- Baganuur JSC,
- Shivee Ovoo JSC,
- Mon-Atom LLC,
- Gashuun sukhait auto road LLC,
- Erdenes Methane LLC,
- Erdenes Shivee Energy LLC; and
- Erdenes Assets Management LLC.



Source: Erdenes Mongolia LLC

Establishment of Erdenes Mongol LLC (100% of state owning)²⁰

Erdenes Mongol LLC, through its subsidiaries, invests in mining activities producing copper, gold, molybdenum, silver, coking coal, zinc concentrates, iron ore, mixed metal and phosphorus. The company was founded in accordance with Government Resolution No. 266 (15 November 2006) and the State Property Committee Resolution No. 52 (22 February 2007) and is based in Ulaanbaatar.

In connection with Parliamentary Resolution No. 27, which identified certain “strategically important” deposits, Parliament introduced the Human Development Fund Law in 2009 to accumulate mining sector revenues from those strategic deposits and distribute them equally to Mongolian citizens.

According to Article 8.2 of the Human Development Fund Law, SOEs shall be the vehicle to implement the ownership rights of the state share in legal entities that hold production licences of strategically important deposits. *(This Law is terminated by the Law of February 5, 2016 and it will be in effect starting January 1, 2017.)*

Procedure to Implement Representation of State Ownership in State Owned Legal Entities was approved through Resolution 80²¹ of the Government of Mongolia dated 2016.

Clause 2.6 of this procedure specified that chairman and members of the Board of directors of SOEs such as Erdenes Tavan Tolgoi JSC, Erdenes Oyu Tolgoi JSC, Baganuur JSC, Shivee Ovoo JSC and Mon-Atom LLC shall be appointed and dismissed by Erdenes Mongol LLC.

The Company charter was amended on October 12, 2013 as per Resolution 347 of the Government was revised and reinstated according to Resolution 104 in 2016²².

Gashuun Sukhait Auto Road LLC (Government of Mongolia: Erdenes Mongol LLC 40%, , Erdenes Tavan Tolgoi LLC 20% - private investors: Energy Resource LLC 40%)

Gashuun Sukhait Auto Road LLC was established with 40% investment from Erdenes Mongol LLC, 40% investment from Energy Resources LLC and 20% investment from Erdenes Tavan Tolgoi LLC to be in charge of the repair, maintenance and utilization of the paved road from group of coal desposits in Tavan Tolgoi to Gashuun Sukhait border crossing point. Under the framework of Government Resolution 83 on Auto Road dated 2010, 239-kilometer heavy-load paved road to transport mining products from Ukhaa Khudag mine in Tsogttsetsii soum of Umnugovi province to Gashuun Sukhait border crossing point was built in 2011 using the financing from Energy Resources LLC. Gashuun Sukhait Auto Road LLC has been in charge of utilization, maintenance, repair, security and safety of the road²³.

Erdenes Methane LLC (Erdenes Mongol LLC owns 100%)

Erdenes Methane LLC was established in February 2016 as 100% subsidiary of a state-owned Erdenes Mongol LLC to engage in exploration and research of traditional and non-traditional petroleum on the territory of Mongolia, attraction of investment, transportation associated with the main operations, and provision of relevant consultatncy services. Currently, Erdenes Methane LLC operates with 12 employees.

Erdenes Asset Management LLC (Erdenes Mongol LLC owns 100%)

²⁰ Source: <http://www.legalinfo.mn/law/details/12142?lawid=12142>

²¹ Source: <http://www.legalinfo.mn/law/details/12142?lawid=12142>

²² Source: <http://www.legalinfo.mn/annex/details/7188?lawid=11796>

²³ http://qsr.mn/?page_id=177

The company was founded in February 2016 as per the decision of Board of Directors of Erdenes Mongol LLC. The main function of the company is to establish investment funds, to provide fund management services, to conduct financial analysis and research, and to invest in programmes and projects within the scope of the investment policy. The approved number of personnel is 6.

Erdenes Shivee Energy LLC (Erdenes Mongol LLC owns 100%)

A project unit, in charge of ensuring the preparatory works of comprehensive energy project based on strategically significant Shivee-Ovoo coal deposit, was established under the auspices of Erdenes Mongol LLC. Implementation of this project will create opportunities to produce value-added final products while enabling the country to generate and export energy using some portion of its 150 billion ton coal deposit²⁴.

Erdene Oyu Tolgoi LLC (Erdenes Mongol LLC owns 100%)

State-owned Erdenes Oyu Tolgoi LLC was established as the subsidiary of Erdenes Mongol LLC pursuant to Resolution 348 of the Government of Mongolia and Resolution 28 of Board of Directors of Erdenes Mongol LLC dated 2011. Erdenes Oyu Tolgoi LLC officially transferred the right to hold 34% of Oyu Tolgoi LLC shares on behalf of the Government of Mongolia from Erdenes Mongol LLC. The main purpose of Erdenes Oyu Tolgoi LLC, according to the Company Charter, is to own 34% stake held by the Mongolian side and to take part in the activities of Oyu Tolgoi LLC while exercising the state participation during the minerals exploitation. The company is currently operating with 17 employees.

Oyu Tolgoi LLC (34% indirectly owned by GoM)

Previously, Erdenes Mongol LLC controlled a 34% share of Oyu Tolgoi LLC on behalf of the government, in accordance with an agreement with Rio Tinto, the ultimate controlling shareholder of Turquoise Hill, signed on 6 October 2009. In 2011, Erdenes Mongol LLC transferred all its shares to its subsidiary, Erdenes Oyu Tolgoi LLC.

Shivee Ovoo JSC (Government of Mongolia: Erdenes Mongol LLC 90%, private investors: individual shareholders 10%)

The Shivee Ovoo mine was commissioned on July 31, 1990. The Government holds a 90% share in Shivee Ovoo, with the remaining 10% held by around 3,300 shareholders. This mine provides 30% of total Mongolian demands of electricity coal and 40% of the demand of the Power Station No. 4. In 2016 it operates with 547 employees. According to the Resolution 100 of the Government issued in 2013 this company operates as a subsidiary of Erdenes Mongol LLC. It has one wholly owned subsidiary, Shivee service LLC.

Baganuur JSC (Government of Mongolia: Erdenes Mongol LLC-75%, private investors: Mongolian national coal corporation LLC-21.6%, 3.94% by others)

Baganuur JSC was established in 1978. Currently 75% of its shares are owned by state-owned enterprise, 21.6% by Mongolian national coal corporation LLC and 3.94% by legal entities and individuals. On 16 March 2013, the Government's interest in Baganuur JSC was transferred to Erdenes Mongol LLC, and it is now managed as a subsidiary of Erdenes Mongol LLC.

Baganuur JSC provides its coal to the Power Station No.2, the Power Station No.3, the Power Station No.4, Amgalan Power Station, DD Power Station, ED Power Station, Baganuur Power Station and Nalaikh Power station which provides with power and heating for power system of the Central Zone

²⁴ <http://zasag.mn/news/view/11273>

of Mongolia. It has 1119 employees. According to the Resolution 100 of the Government issued in 2013 this company operates as a subsidiary of Erdenes Mongol LLC.

Baganuur JSC provides 70% of total Mongolian power production and 60% of all utilization of coal.

Baganuur JSC has subsidiaries as Baganuur-ilch LLC and Baganuur-suvilal LLC. Also, it has 46% of Mon-Tsakhim LLC.

Baganuur-ilch LLC was operating as representative office of Baganuur JSC in years 1993 to 2000. Then, it was restructured into 100% subsidiary of Baganuur JSC on January 01, 2000.

The company supplies coal to the thermal stations of Ulaanbaatar districts, satellite towns and other settled areas while engaging in restaurant, karaoke and billiard business.

Baganuur-Suvilal was restructured into Baganuur Suvilal LLC in 2000 after operating as social welfare section of Baganuur mine since 1990.

The company has a capacity to receive and render treatment to 100 guests at once. In addition, it has 2 restaurants for 160 and a hotel for 31.

Mon-Tsakhim LLC was founded in 1996 and is engaged in electric repair and maintenance of mining and other equipment.

Erdenes Tavan Tolgoi JSC (100% owned by Erdenes Mongol)

Erdenes Tavan Tolgoi JSC was founded on August 27, 2010. According to the Resolutions of Mongolian Parliament and Government, Erdenes Tavan Tolgoi JSC started to operate since December 23, 2010 as a subsidiary of Erdenes Mongol LLC to mine the Tavan Tolgoi coal deposit. The main operation of Erdenes Tavan Tolgoi JSC focuses on putting strategic mine deposits into economic activities, carrying out exploitation on the deposits and implementing infrastructure projects. Erdenes Tavan Tolgoi JSC has 588 employees, all of which are Mongolians.

The company concluded coal sales agreement with Chalco, a Chinese state—owned company, on July 26, 2011 and received advance payment of USD 350 million. From this amount, coal supply equal to USD 96 million is outstanding. Thus, agreement was reached to supply at least 200 thousand tons of coal per month starting from February 2016 to Chalco company in order to meet the outstanding obligations²⁵.

Based on Parliament Resolution #39 regarding “Some issues concerning the usage of Tavan tolgoi coal mine” dated 2010 and Parliament Resolution #34 regarding “Some measures concerning the stimulation of economic activities” dated 2014, a Resolution 268 of the Government of Mongolia was issued on August 20, 2014 to increase the economic benefit of Tavan Tolgoi deposit, support competitiveness through production of value-added products, promote sales of products in international market, attract necessary investment, create professional management team, and resolve infrastructure development issues without creating additional burden to the state budget. As a result, the Government of Mongolia carried out “Open bid to select the investors to collaborate on the Tavan Tolgoi coal mine”.

Mon Atom LLC (100% state owned)

Mon Atom was established in 2009 by Government Resolution No. 45 on Establishing a State Owned Company. The company’s main objective is to conduct geological studies around Mongolia to locate uranium, rare elements of earth and other radioactive minerals, prepare qualified national human

²⁵ <http://www.erdenestt.mn/?p=1471>

resource, the required material bases and implement state participation for the projects with foreign and private investments in this sector.

The company currently operates with 6 personnel. Pursuant to Resolution 68 of the Government of Mongolia dated February 01, 2016, the company was restructured as a subsidiary of Erdenes Mongol LLC.

According to the website of Areva Group, Areva Mines LLC is a joint company 34% owned by Mon-Atom LLC, an SOE.

Areva Mines LLC is a company to be engaged in exploitation activities based on the licences issued from competent central authority in charge of geology and mining²⁶.

Ulaanbaatar Tumur Zam Gravel plant LLC (GoM 50%, Russian Government 50%)

Ulaanbaatar Tumur Zam gravel plant is a Mongolian-Russian joint venture where GoM owns 50% and the rest is owned by the Russian government. The company holds a production licence and it started extracting gravel in the area of Dalanjargalan village in Dornogovi province since 1956.

Erdenet Mining Corporation LLC (Government holds 51% and private sector owns 49%)

Erdenet Mining Corporation LLC is one of the largest copper mines and processing plants in the world. Its operations started in 1978 when it was established through an intergovernmental agreement between Mongolia and Russia. Since then, the Russian Government has owned a 49% share in the company. This plant processed approximately 26 million tons of ore and produced approximately 530 thousand tons of copper concentrate and 4,5 tons of molybdenum concentrate per year.

In 2016, the shares held by the Russian Federation²⁷ were transferred to Mongolian Copper Corporation which is a Mongolian private company.

Mongolroostsvetmet LLC (GoM 51%, private owning is 49%)

Mongolroostsvetmet is a fluorspar mining and Production Company with three underground and two open pit mines and a mineral processing facility. The company produces both acid and metallurgical grade fluorspar and gold concentrates.

In 2016, 49% of this plant held by Russian Federation transferred to 'Mongolian Copper Corporation'.

Mon-Czech Uranium LLC

On June 12, 2015, E.Galbadrakh, CEO of Mongolian state-owned Mon-Atom LLC and M.Klecka, Chairman of Board of Directors of Uranium Industry JSC signed on a Shareholder agreement to establish a joint MonCzech Uranium company.

The Cadastre system of Minerals and Petroleum Authority indicates that Mon-Atom state-owned LLC transferred its licence #XY-018953 in Norovlin soum of Khentii province to Mon Czech Uranium LLC.

Darkhan metallurgical plant JSC (100% state owned)

The Darkhan metallurgical plant was established in 1990 on the basis of Darkhan–Selenge iron-ore deposits. The deposit is listed as a strategic deposit with estimated reserves of 230 million tons. Within the framework of a plan to develop Darkhan metallurgical plant into a mining and

²⁶ <http://mongolia.aveva.com/scripts/mongolie/publiqen/content/templates/Show.asp?P=94&L=MN>

²⁷ <http://www.mcc.mn/project.html>

metallurgical industrial complex, the plant launched its iron ore wet magnetic processing facility in 2014.

3.7.1.4 *Companies with local ownership*

Tavan Tolgoi JSC (Local government ownership 51%, private ownership 49%)

Tavan Tolgoi JSC restructured as a state owned company on December 5, 1994, pursuant to Resolution 42 of the privatization committee of the Government of Mongolia. From 1995, Tavan Tolgoi JSC started operating as a locally owned joint stock company. The Tavan Tolgoi coal mine is located in the central South Gobi region of Mongolia, which is approximately 270 km north of the Mongolian-Chinese border.

Mogoin Gol JSC (Local government ownership 51%, private ownership 49%)

Mogoin Gol JSC is a coal mining enterprise, established in 1970. The deposit is located in Khuvsgul province and the company has been listed on the Mongolian stock exchange since 1994.

Bayan Teeg JSC (Local government ownership 70%, private ownership 30%)

Bayan Teeg JSC is a coal mining enterprise, established in 1961. Its deposit is located in Uvurkhangai province, 560 km from Ulaanbaatar. The company was restructured as a joint-stock company in 1995 and 70% of its share is owned by the local government. The company has been listed on the Mongolian stock exchange since 1994.

3.7.1.5 *Other SOEs*

Based on the licence information provided by MRAM, we noted some further SOEs were not involved in our reconciliation scope, because these companies make immaterial payments to the national budget. These SOEs include: SHTN, Avdrant Khaikhan, Bulgan province's Correction Faculty No.439, Mining Rescue Division, Correction Faculty No. 443, the Implementing Division of Court Verdicts of Khentii province, Sukhbaatar mine and the Implementing Division of Court Verdicts of Sukhbaatar province. While the majority of these companies held common minerals and coal mining licences, one company (Sukhbaatar mine) had a wolfram mining licence in Sukhbaatar province.

3.7.1.6 *Board of Directors*

A total of 11 SOEs have provided their BOD information. Please refer to Appendix 20 for BOD information of SOEs.

3.7.1.7 *Corporate governance evaluation survey of state-owned companies*

National Corporate Governance Report 2015²⁸ issued by the Financial Regulatory Commission of Mongolia and Programme Implementation Unit of National Corporate Governance Council assessed the current state of corporate governance at Mongolian companies, including state-owned enterprises (SOEs). For this report, the methodologies used in the 2013 survey were applied to assess any changes and progresses.

51 SOEs were covered in the report including 6 mining entities, namely Erdenet Mining Corporation, Baganuur JSC, Erdenes Mongol LLC, Shivee Ovoo JSC, Mon-Atom LLC and Erdenes Tavan Tolgoi JSC.

The below table illustrates the result of the survey, which categorizes the questions into corporate governance benchmarks for state-owned entities:

Principles	Outcome
1. Efficiency of the created regulation	The result of the questions regarding the efficiency of regulatory mechanism at state-owned entities indicates that further improvement is required for the regulations even if the

²⁸ <http://qovernance.mn/upload/files/2016/01/07/c6eca79876616ea9a1ca86172d0805f7.pdf>

mechanism	regulatory system to separate the rights and responsibilities of shareholders are in place. Compared to the previous year, the matters regarding the loans and finances of SOEs are becoming more independent from the government. Yet, further attention is needed to address decisionmaking that is designed for the benefit of the society, but imposes liabilities that are not in line with the main purpose of the company, which is to make profit. Also, the report suggested that shareholders need to pay attention in pursuing a flexible policy with regards to the financing sources.
2. Exercising of government rights as a shareholder of an SOE	SOEs ²⁹ as well as government agencies in charge of overseeing the SOEs fulfill this obligations to a satisfactory level. Furthermore, the regulation between the government representation and SOEs are specified in the internal documents of the companies in a clear manner. It also shows that opportunities for the management of SOEs to manage the company operation independently from the government has improved compared to the previous year. However, the board of directors of some companies still have restrictions on their legal capacities. The fact that companies are claiming that no transactions were concluded with conflict of interest individuals such as board members, other competent officials and related parties may indicate that they are unable to identify conflict of interest transactions. In these days when corporate governance compliance is taking priority stance for SOEs, the state representation to the SOEs should work with NGOS such as National Corporate Governance Council to select the independent board members
3. Fair and equal attitude to all shareholders	The BOD of the SOEs believes that they pursue a policy to ensure equal treatment of shareholders, especially the minority shareholders. However, for the major shareholders, it is evident that the nomination and selection of board members to the SOEs by the government has not been fair and there are instances of political appointment or nepotism.
4. Relations with participating parties	Since the rights and responsibilities of the stakeholders are clearly defines in relevant laws, the SOEs are obliged to comply. The companies shall be held liable for any incompliance. The companies usually communicate with the stakeholders through certain agreements. General ethical principles and policies for those agreements should be reflected in the corporate governance policy. Civil Code, Law against Unfair competition and Law on Bankruptcy have well regulated provisions on issues related to remedial actions by companies that incur damages to the competitors or other stakeholders. The survey reveals that SOEs communicate with local and international stakeholders on contractual basis within the scope of law. Although the SOEs claim that their information is readily available, the international stakeholders, research and training institutions, and public have limited access to their operational and financial records.
5. Openness and accountability	For the transparency questionnaire, the result indicates a relative improvement from last year among the SOEs. It was concluded that information transparency has shortcomings in forms other than the lawful disclosure of audited, year-end operational and financial reports of the SOEs. This is especially the case for transparent disclosures on business ethics, compliance to corporate governance principles, information on competent officials and their related parties, and significant and conflict of interest transactions taking place at the companies. Corporate website is one of the easy and cost-effective means to deliver information using information technology. Thus, it is important to send requirements to the competent officials of the companies to ensure continual operation of the corporate website for transparent information access and glass account information.
6. Internal audit	It is crucial to have a structure within the company that monitors whether the operation of the company meets its mission and visions, whether the management decisions are implemented accordingly and whether the activities comply with relevant laws and regulations. This role is assumed by the internal audit function. For SOEs, the governance and executive management roles are independent. Therefore, the oversight on the activities of executive management should be carried out by an internal audit function that reports directly to the management of the SOE.
7. Responsibility of BOD members	It is demonstrated that changes and reforms are being carried out to the BOD of SOEs jointly with the State Property Committee in accordance with the requirements stipulated in the revised Company Law such as having board committees and mandatory attendance of board members to corporate governance trainings. It is seen that a system for the BOD of SOEs to

²⁹The State Property Committee was dissolved as per Resolution 5 of the Government dated January 04, 2016. Later, this resolution was assumed to be invalidated by Resolution 3 of the Government dated July 27, 2016 and the function of the State Property Committee was transferred to Agency for Policy and Management of State Property, an implementing agency of the Government.

	operate in accordance with their action plan and to conclude contracts with the executive management while overseeing their performance on regular basis and reporting their own activities to the shareholder meetings is in place. However, it is seen that there is shortcoming in the appointment of the chief executive director based solely on the recommendation of the nomination committee without any political influence.
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3.7.1.8 Evaluation of corruption risks in the Mongolian mining sector

In May 2016, as requested by UNDP, the Independent Research Institution of Mongolia (IRIM) conducted an assessment and identified corruption risks in the four phases of mining: exploration, pre-operation, operation and post operation using the Practitioner's Guide for Corruption Risk Mitigation in Extractive Industries³⁰.

In the Global Competitiveness Report 2015-2016, Mongolia ranked 77th among 140 countries in the irregular payments and bribes category with score of 3.8 out of 0-7 scale.

Based on the research, 15 different types of major corruption risks were identified and their risks levels were defined in the exploration, pre-operation, operation and post operation phases of mining and geology activities.

Risks	Risk levels
RISK 1. Obtaining exploration licences by application	There is a corruption risk related to decision-making activities in the process of obtaining exploration licences by application. It is related to: the absence of an integrated data system, lack of detailed regulation in the process of receiving proposals from local stakeholders and non-transparent information about how the materials provided with the application meet (or otherwise fail to meet) the requirements.
RISK 2. Granting exploration licences through tender process	There is a corruption risk related to granting exploration licences through tender process. Factors contributing to this corruption risk are: lack of details in regulations regarding the appointment of the tender commission members (and their responsibilities), and that most members of the commission are officials of the Mineral Resource Authority of Mongolia. In addition, there is no detailed procedure on the process of making decisions on either approval or rejection in response to the applications submitted by mining companies in accordance with relevant regulations. Therefore, in order to mitigate the corruption risk, there is a need for a detailed legal provision to regulate the appointment process of the tender commission, its final decisions and the transparent reporting of its final results and to make related documents more transparent to other government and local authorities.
RISK 3. The exploration phase, related to receiving proposals from local governors and Citizens Representative Khurals.	There is a corruption risk in the exploration phase, related to receiving proposals from local governors and Citizens Representative Khurals. Local governors and land departments follow the Law of Land whereas mining companies follow the Minerals Law when they comment on an area the subject of granting an exploration license. However, the two laws contradict each other. Local stakeholders usually give negative comments on the exploration license granting notifications sent to them from MRAM, but after a while changes have often turned positive. Also, it is unclear how to calculate the period of time allowed to get proposals from local stakeholders; and communication between aimag and soum CRKs requires detailed regulations (which is directly linked to soum CRK financial capacity to conduct meetings). Therefore, such relations need to be regulated in advance. For MRAM, it is important to regularly update the data system of the land and area registrations, and to have an integrated database (between MEGDT and the Cadastre Division of MRAM). Also, it is critical to implement an integrated structure to share information with local administrative authorities.
RISK 4. Affecting conclusions of the mineral resource's estimation and assessment	There is a corruption risk related to affecting conclusions of the mineral resource's estimation and assessment. Mining companies are interested in having a lesser resource estimation (than the actual resource value) in order to increase their profits and to avoid the risk of extracting less minerals than they target. In this case, corruption risks are created which affect the conclusion of the resource estimation and assessment. Also, more than half of applications are returned because of having inappropriate estimations and assessments which are related to limited methodologies and technologies to conduct mineral resources estimation and assessment and engineers' low capacity and skills. Furthermore, there is a weak accountability mechanism for wrong mineral

³⁰http://www.mn.undp.org/content/mongolia/en/home/library/democratic_governance/CorruptionRiskAssessmentinMiningSectorofMongolia.html

Risks	Risk levels
	resources estimations and assessments, and the Professional Council of Minerals (involved in the final decision making process) should have transparent and responsible decision-making and working procedures.
RISK 5. Having the conclusions of the TEFS promptly	There is a corruption risk related to having the conclusions of the TEFS promptly. This corruption risk is created because of the lack of regulatory provisions on which commission to approve the TEFSs from mining companies and what procedures to follow. It creates conflict of interest because committee members and experts, who are conducting assessments, analysis and inspections during the stage of the general and detailed assessment of environmental impact development and approval process, are able to work for both sides.
RISK 6. Affecting the decision to issue construction work permissions immediately	There is a corruption risk related to affecting the decision to issue construction work permissions immediately. In the pre-operation phase, mining companies are required to obtain permissions from ten different organizations and to provide not less than 90 documents (depending on the size of the mining company and type of minerals they are extracting). Corruption risks also exist related to getting mandatory documents reviewed immediately, having a decision in favour of the company and to obtain permission (to conduct construction activity) in as short a time as possible. Decision making authorities have heavy workloads because they receive many applications, and there is limited transparency of information about discussions held on applications and the decision making process. Also, there is a risk to give bribes in order to get applications and supporting documents which do not meet quality requirements approved.
RISK 7. Inspection of mining operations	There is a corruption risk related to the inspection of mining operations. The number of overlapping and insignificant inspections affects companies' sustainable operation and creates increased hidden interests among officers who conduct the inspections. Specifically there are corruption risks related to unscheduled inspections by the General Agency for Specialized Inspection and local governors. Even though there are some legal restrictions, corruption risks are created because of unscheduled inspections conducted without informing the companies, and unclear inspection guidelines and methodologies. Companies have limited legal knowledge about the inspections activities and permission granting processes, and this leads to the risk of conducting illegal activities or exposure to illegal inspections. Therefore, companies should focus on improving their governance, accountability and internal capacities.
RISK 8. Local donations and assistance.	There is a common corruption risk related to local donations and assistance. The model agreement with local administration referred to Article 42 of the Minerals Law was adopted on 28 March 2016. In this respect, capacities and skills of the CRKh and local administrative offices should be improved and they should be provided with training and advisory services. Also, good practices (examples) of the local model agreements should be promoted. One important factor to reduce corruption risks related to donations and assistance is EITI. The Initiative should be strengthened, opening more solutions for effective implementation. Likewise, legal acts to regulate this relationship should be approved and activities of local branches should be institutionalized.
RISK 9. Conflicts between citizens and mining companies	There is a corruption risk related to conflicts between citizens and mining companies. The main conflicts between local citizens and mining companies are created because of local citizens' negative perceptions about the industry, and weak reporting system of the mining companies to the local community. Using this gap, some citizens are creating a corruption risk to get bribes from the companies. Therefore, it is crucial to improve companies' social responsibilities, the strategy to work with the local community and skills of their experts. Also, it is important to create a reporting mechanism to provide accurate information to local citizens and to conduct monitoring on water issues (with citizens' participation). There is a need to support operations and capacities of mining professional associations and increase the participation of independent experts in the licence granting and inspection stages.
RISK 10. Planning and reporting of mineral extraction operations	There is a corruption risk related to the planning and reporting of mineral extraction operations. In the operation phase, companies give bribes to related authorities to: accelerate the time of approval (in order to save time), to approve reports and plans of inadequate quality, or to reduce the amount of fines imposed for such reports. Most companies submit their plans and reports when the submission deadline (provided in the laws and regulations) approaches. This creates a sudden overload of work for MRAM. Therefore, it is critical for companies to plan ahead and focus more on improving their accountabilities and internal capacities for developing these plans and reports.
RISK 11. Approval of the environmental management	There is a corruption risk related to approval of the environmental management plan. Generally companies: give less importance to development of the environmental management plan, develop misleading plans, and submit reports reflecting less damage than they actually made. Mining companies have less skills and capabilities to prepare required reports and documents in accordance with the standards provided in laws, and (commonly) heads of the companies do not

Risks	Risk levels
plan	give much importance to the issue. Most mining companies do not give much importance to crucial assessment works such as environmental assessments, and this contributes to the social reputation of the mining sector decline. MEGDT should implement provisions on improvement of procedures to conduct environmental assessments and to increase public involvement in it.
RISK 12. Sales of minerals.	There are corruption risks related to sales of minerals. This group of risks is very common but hidden, and mostly related to taxation, reports and customs issues. Only corruption risks related to taxation issue is reflected in this report. Therefore, the assessment team recommends to conduct a detailed study on them.
RISK 13. Mine closure decision making process	A corruption risk related to the mine closure decision making process is being created because of limited provisions in 'Regulation on temporary and permanent closure of mine', about how to appoint members of the mine closure commission and which guideline the commission should follow when they conduct the closure activity inspection. Local governors and General Agency for Specialised Inspection who make decisions on whether to give permission to conduct mine closure or not, create the corruption risk by making disputed decisions.
RISK 14. Unclear legal acts	There is a corruption risk related to unclear legal acts. The current laws and provisions regulating mining closure activity are too general and unclear, and this enables companies to avoid their liabilities in conducting rehabilitation of affected areas to local authorities. Therefore, there should be new legal acts brought into force to regulate the post-operation phase of the mining operation.
RISK 15. Rehabilitation collateral fund	Corruption risk related to the rehabilitation collateral fund is being created because of limited provisions to regulate this relation. The collateral fund does not meet the principles of transparency and accountability, and there is insufficient cooperation between MoM and MEGDT. Therefore MEDGT should improve the management of rehabilitation collateral fund, and should make it more transparent and responsive. The EITI international policies contain measures required for improving governance and preventing from corruption. These need to be reflect in anticorruption plans of relevant ministries and agencies.

Source: Corruption Risk Assessment in Mining Sector of Mongolia carried out by Independent Research Institute of Mongolia NGO

3.7.2 STATE PARTICIPATION IN THE PETROLEUM SECTOR

In July 2014, the Parliament of Mongolia approved a revised version of the Petroleum Law, revoking the 1991 Petroleum Law. In addition to conventional oil products, this law covers other resources such as shale sands, coal-bed methane and natural bitumen amongst others. As the primary regulator, Petroleum Authority of Mongolia is responsible for matters such as concluding PSAs (as authorized by the government), approval of annual plans, and the supervision of fee payments.

The Articles 7, 8 and 9 of the new law delineate the state participation in the oil sector. Specifically, according to the new Petroleum Law, GoM has the right to approve PSAs between the licence holder and PAM, while PAM is responsible for entering into prospective contracts with potential contractors and negotiating the PSA with prospective contract holders. In addition to PAM and GoM, MoM is also responsible for issuing and extending exploration and production licences and approving the reserve estimates submitted by exploration licence holders.

Article 5 and 6 of Law on Petroleum Products³¹ approved in 2005 stipulates the government participation in the production, sales, transportation and storage of petroleum products.

The list of all PSAs is set out in Section 3.4.2.2.

3.7.3 FINANCIAL RELATIONSHIP BETWEEN THE GOVERNMENT AND SOEs

The financial relationship between SOEs and Government is commonly regulated by the Law on Budget and the Law on State and Local Properties.

³¹<http://www.legalinfo.mn/law/details/214?lawid=214>

Money transfers of the government and SOEs other than the tax are basically regulated by Law on Human Development Fund, which is in place since 2009. Pursuant to the Law on Human Development Fund, the dividends on the state share of the legal entities that own special exploitation licences of strategic mineral deposits, sales income of shares and net profits generated from investments into securities, debt notes, and savings at local and international markets for the purposes of increasing the assets of the fund shall be collected at the Fund. The revision to the law on January 29, 2016 invalidated the clause regarding transfer of certain portions of the advance payments and loans obtained in relation to the exploitation of strategic minerals deposit to the Human Development Fund.

According to information on the Human Development Fund provided in respect of 2015 by the Ministry of Finance, a dividend of MNT 70 billion was forecast for 2015. However, no dividend was paid since there was no Board of Directors' meeting of Erdenet Mining LLC and consequently no decision to authorize and distribute a dividend. Information on dividend payments of other state-owned mining enterprises was requested from the Ministry of Finance. The Ministry of Finance replied that no dividends received in 2015.

Using the templates of additional information the Bayanteeg JSC, Mogoin gol JSC and Tavan tolgoi JSC with local ownership delivered their data of dividends as follows:

(mln MNT)

Registration number		2014491	2034859	2016656
Companies		Bayanteeg JSC	Mogoin Gol JSC	Tavantolgoi SSC
Net profit of 2014		348	97	4,437
Net profit of 2015		463	79	572
Total declared dividend from net profit of 2014 (allocated in 2015)		25	8	16,747
Dividend distribution	For shareholders	8	4	8,325
	Dividend for state property	18	4	8,423
Total declared dividend from net profit of 2015 (allocated in 2016)		25	4	0
Dividend distribution	For shareholders	8	2	0
	Dividend for state property	18	2	0
	Received organizations	Local governing organizations	State Division of Khuvsgul province	Local governing organizations

Source: Received information from these companies

TavanTolgoi JSC has a total of 52,665,200 shares and 51% of them or 25,805,948 shares are being held by the local area, 49% or 26,859,252 shares are held by other 1165 shareholders. In 2015 the total dividend of 16,747 mln MNT was declared and 1,537 mln MNT from this amount was paid to the Governor's Office of Umnugovi province, and the remaining 6,804 mln MNT were deducted from the bills of 2012. Totally 8,325 MNT were shared to other shareholders.

Law on State and Local Property

In 1996, the Parliament of Mongolia passed the Law on State and Local Government Property with the objective to regulate matters in relation to the rights of legislative and executive organisations concerning ownership rights over state and local government property; the level of authority of a legal person with state property and its administration; and the principles and regulations governing the activity of an organization implementing policy over state property.

Article 15 of the law specified that the cabinet member in charge of finance and budget shall provide oversight on the financial outcome of the SOEs, and the financial and monetary transactions of budget entities.

According to Article 16 of this law, entities owned by the national or local government shall not take loans from third parties or raise capital by issuing shares without prior approval from either the state central administrative body in charge of budget and finance, or the province or Citizen's Representative Khural (council). */This Section was amended by the Law of February 18, 2015/* However, this does not include short-term loans and securities maturing within the year. Additionally, loans financing the seasonal shortage of income are not included.

3.7.4 TRANSACTIONS BETWEEN SOEs AND GOVERNMENT

We requested information about produced coal in 2015 from SOEs included in our reconciliation scope. The following three companies produced coal:

№	Power stations	Contribute s of thermal Power Station	Delivered coal in 2015				Average price of coal per ton, USD	Average price of thermal coal per ton /world market/
			Thous.t ons	Mln MNT	Average price of coal per ton	Costs of coal per ton		
Baganuur JSC							\$ 13.24	\$ 38.12
1	SOE "Power Plant (PP)-4"	60%	1,635	43,467	26,588	29,300		
2	SOE `PP-3`	100%	1,267	33,542	26,480			
3	SOE `PP-2`	100%	225	5,684	25,321			
4	SOE `DDPP`	60%	108	2,697	25,069			
5	`Amgalan PP` LLC	100%	39	1,037	26,590			
6	SOE `Baganuur PP`	100%	59	1,618	27,612			
Shivee-ovoo JSC								
1	SOE `PP-4`	40%	1700	35,802	21,060	21,551		
Sharin gol JSC								
1	SOE `DDPP`		273	7,664	28,093			
2	SOE `EDPP`		286	8,026	28,037			

Source: Data obtained from extracting companies, International market prices, by statistics of MRA and PA

The average official rate of 2015 determined by the Central Bank of Mongolia to convert MNT to USD was followed.

From the above table, it is seen that SOEs are supplying their coal to the powerplants by third of the market price. This affects the loss incurred by Baganuur JSC (MNT 4.8 billion loss in 2015) and Shivee-Ovoo JSC (MNT 1.7 billion loss in 2015).

The approval of "Main Direction to Privitize and Restructure State Properties in 2015-2016" by the Parliament as per Resolution 70 in 2015 was a timely decision in this economic downturn. The government approved "The list of state-owned enterprises to be privatized and restructured in years 2015-2016" in order to implement the aforementioned resolution.

Accordingly, Erdenes Mongol LLC is in charge of the preparation of reduction in state-ownership or privatization of Baganuur and Shivee-Ovoo JSCs.

3.7.5 LOANS AND LOAN GUARANTEES

The following projects have been financed by the Funding Report of December, 2015 issued by Development Bank of Mongolia to develop the mining sector:

#	Names of projects and programs	Start-end period of Projects	Contract amount	Allocated funding by increased sum (mln MNT)	Funding condition /by year/		Borrowers	Date to be paid back
					Interest	Duration		
1	Erdenes Tavan Tolgoi	2012-2017	250.0 mln USD	138,686.0	7.35%	5.0	Erdenes Tavan Tolgoi JSC	October 5, 2017
	Erdenes Tavan Tolgoi			139,256.0	7.38%	3.0		February 1, 2016
	Erdenes Tavan Tolgoi			94,280.0	-	-		Closed
2	Project to produce synthetic natural gas from coal	2014-2015	991.9 mln MNT	585.5	10.0%	2.7	Ministry of Mining	February 15, 2017
3	Funding for Oyu Tolgoi Project	2014-2016	10 mln USD	4,922.8	7.65%	2.0	Ministry of Finance	Nov 15, 2016
4	Plant to enrich iron ore	April, 2014- April, 2015	5.6 bln MNT which is equal to 3.0 mln USD	5,643.0	10.0%	3.3	Mon-Laa LLC	Dec 11, 2017
5	Extension of Baganaur coal mine	April, 2013 - April, 2018	18.6 bln MNT	18,634.0	9.6%	5.0	Baganaur JSC	Apr 24, 2018
6	Central Lab of Geology	July, 2013- July, 2017	379.9 mln MNT	379.9	9.0%	3.0	SOE `Central Lab of Geology`	Aug 12, 2017
7	Railway between Tumurtei deposit and Khandgait station	Q2, 2014 – Q3, 2015	71.3 mln USD	133,740.3	8.0%	4.0	QSC LLC	Dec 3, 2018

Brief introduction of above-mentioned loans:

Erdenes Tavan Tolgoi Project

The purpose of the project is to finance the operations such as extraction and transportation while increasing the workin capital.

Tavantolgoi coal mine has a coking coal deposit of 6.0 billion tons and is considered as one of the major mines in the world. 1.0 million tons of coal was exported in 2011, 2.5 million tons in 2012, 2.1 million tons in 2013, 5.7 million tons in 2014 and 4.2 million tons as of December 2015.

The Project `Power Station of Tavan Tolgoi`

The purpose of the project is to build an electricity generation plant with a capacity of 450 MWatt nearby Tavantolgoi coal mine. The project started in 2013 and is expected to be completed in 2017 with contract amount of USD 15.98 million. The amount financed reached USD 14.82 million /USD 5.0 million/. Within the scope of the project, an electricity generation plant with 450 MWatt capacity and 150-kilometre road between Tavantolgoi and Oyutolgoi will be constructed. Within the implementation framework, feasibility studies, environmental and social impact assessment,

geology, geodesy archeology, and paleontology studies as well as coal analysis have been carried out. The tentative technical TOR was delivered to the 4 companies selected under preliminary evaluation in order to select the investors.

Project to produce synthetic natural gas from coal

The purpose of this project is to introduce technology that generates synthetic natural gas from brown coal, build factories with capacity of 16.0 billion cubic metres per annum and construct 1500-kilometre pipelines to transport ground water and gas as part of creating an industrial cluster.

The activities of the project unit to build a factory that generates synthetic natural gas from brown coal has been launched and feasibility studies as well as other relevant researches has been conducted under the preparatory work for the start of the project.

Funding for Oyu Tolgoi Project

It was decided to seek a consultancy service within the scope of launching the underground mine of Oyutolgoi project. As of December 2015, a contract for legal consultancy service was concluded.

Plant to enrich iron ore

Mon-Laa LLC concluded an agreement to purchase equipment for wet enrichment of iron ore from China. Development Bank granted an MNT loan equivalent to USD 3.0 million, which is the remaining payment balance under the agreement. As a result of this project, the raw material processing technology of mining sector will be improved while new jobs are created to benefit the livelihood of people.

Extension of Baganaur coal mine

Under the framework of the project, Baganaur JSC purchased 4 coal transportation and 4 soil transportation trucks as well as one bulldozer. The expansion of the coal crushing facility was completed in January 2014.

The Project `Central Laboratory of Geology`

The purpose of the project is to upgrade the equipment of Central Geology Laboratory SOE to impose independent monitoring on the products exported from the enrichment plant of Oyutolgoi LLC.

Central Geology Laboratory SOE has been carrying out monitoring analysis on the gold and copper ores of Oyutolgoi since June 2013. Upgrading of the equipment through Development Bank funding will enable precise and timely analysis of gold and silver contents in accordance with ISO 10378 standard.

Railway between Tumurtei deposit and Khandgait station

The project is designed to construct 33.4-kilometre railway from Tumurtei deposit to Khandgait station as part of the establishment of Mining and metallurgical complex and expansion of Darkhan Metallurgical Plant within the scope of Resolutions 35 (2008), 36 (2010), and 37 (2012) of the Parliament as well as Resolutions 153 (2008) and 169 (2014) of the Government.

This project will complete 33.4-kilometre railway, along with its loading terminals, that connects Tumurtei deposit in Khuder soum of Selenge Province and Khandgait station in Yuruu soum of Selenge province.

3.7.6 LOAN GUARANTEE

Development Bank issued a guarantee to USD 35.0 million loan granted from Khan Bank to finance the working capital of Erdenes Tavan Tolgoi JSC. The outstanding balance of this loan as of December 31, 2015 was USD 5.2 million. Tavantolgoi is one of the major mines in the world with coking coal deposit of 6.0 billion tons. 1.0 million tons of coal was exported in 2011, 2.5 million tons in 2012, 2.1 million tons in 2013, 5.7 million tons in 2014 and 4.2 million tons as of December 2015.

3.7.7 FUNDING ALLOCATED BY THE DEVELOPMENT BANK OF MONGOLIA FOR THE COMPANIES INVOLVED TO THIS RECONCILIATION, WITH NON-MINING OBJECTIVES

Additionally, Development Bank issued the following loans for sectors other than mining to companies that are part of the reconciliation and hold special licences:

№	Projects and programs	Start-end period of the Projects	Contract amount	Allocated funding /by increased sum/ (mln MNT)	Funding term /year/		Borrowers	Date to pay back
					Interest	Duration		
1	Auto road Tavantolgoi-Gashuun sukhait	Nov 2010- Nov 2011	170.6 bln MNT	170,595.5	4.250%	6.0	Erdenes Mongol LLC	Feb 12, 2020
2	Plant of construction rebars	2013 – Apr. 2015	22.7 mln USD	32,028.7	8.0%	3.6	Beren group	Nov 15, 2017
3	Plant to produce flats	Aug 20, 2013 – Aug 20, 2015	13.1 mln Euro	22,034.6	8.0%	8.0	Erel LLC	Aug 19, 2021
	Plant to produce flats			17,921.1	8.17%	6.7		June 14, 2022
	Plant to produce flats			2,244.3	4.786%+ euribor	4.9		April 28, 2019
	Plant to produce flats	2013.08.20 - 2015.08	14 mln USD	25,972.2	4.4%+eu ribor	4.8		April 28, 2019
4	Montsement	July, 2013-Q3, 2015, or 2016	65.0 mln USD	67,447.1	7.79%	5.0	Monpolym et LLC	Oct 28, 2019
	Montsement			59,112.3	8.45%	4.3		Oct 28, 2019

Tavantolgoi-Gashuun Sukhait Auto Road Project

The purpose of this project is to construct 245-kilometre paved road from Ukhaa Khudag mine in Tsogtsetsii soum of Umnugovi province to Gashuun Sukhait border-crossing point in order to increase the export of coal and to protect the ecosystem of Gobi region in accordance with Resolution 81 of the Government on Auto road dated March 31, 2010.

The road was completed in January 2012 to enable mines operating on Tavan tolgoi deposits to carry out transportation under the agreements with the transporters and Erdenes MGL LLC. The amount of coal export from Mongolia reached 18.3 million tons between February and December of 2014, of which 5.2 million tons were transported through the road. The Government issued Resolution 299 in 2013 to transfer the road between Ukhaakhudag and Gashuunsukhait constructed by Goviin Zam LLC and the infrastructure at Gashuunsukhair border-crossing point to Erdenes MGL LLC.

Project for Construction Reinforcement Bars

As a result of the project, a plant with an annual capacity to produce 100 thousand tons of high-quality steel reinforcement bars using UHF Electric Arc Furnace technology will be created. This will

enable the establishment of metallurgical complex that produces final steel products by processing the iron ore in Mongolia.

Beren Group LLC concluded an agreement with FABER company from Singapore to purchase equipment for production of construction reinforcement bars. Pursuant to the agreement, 80% of the payments for the ancillary equipment and 20% of the payments for main equipment will be made in installments. After the conclusion of relevant agreements, USD 17.7 million, 80% of the ancillary equipment cost, was paid in two installments.

Construction Plant

The purpose of the project is to supply affordable housing in order to implement “New construction” mid-term target programme approved as per Resolution 36 of the Parliament as well as “Housing Programme” approved as per Resolution 113 of the Government dated 2014.

Based on Resolution 113 of the Government dated April 04, 2014, a loan agreement was concluded with Commerzbank of Germany to obtain EUR loan. Within the scope of this measure, loan and other relevant agreements were concluded with Erel LLC and EUR 12,145,000.0 letter of credit was issued in May 2014. In accordance with the notice delivered from Commerzbank, EUR 11.0 million loan was issued, of which 84% was granted to Erel LLC.

Furthermore, an MNT funding equal to USD 14.0 million was raised through the sales of government securities to implement “Construction Plant 1” project. Such funding will be disbursed through Development Bank. USD 14.0 million loan with tenure of 96 months and annual interest rate of 8% was granted to Erel LLC to build German technology construction plant that meets European standards.

Moncement Project

The purpose of the project is to build a factory along with its infrastructure that produces 1.0 million tons of cement per year.

Huashin Cement Company of China jointly with Holcim Group of Switzerland is working to construct a cement factory in accordance with international standards. The factory is part of the Moncement project implemented by Monpolimet LLC and its subsidiary Senjsant LLC. Huashin Cement LLC is carrying out blueprint works, equipment production and supply as well as installation of the construction and other equipment. The overall construction is 94% complete with 100% completion at the cement lines, 90% completion at the gravel lines and 100% completion on the infrastructure. The cement line was completed and opened on August 13, 2015.

3.7.8 SUB NATIONAL PAYMENTS (REQUIREMENT 4.6)

We asked the SOEs included in the reconciliation to provide information on payments made locally as per the template. In 2015, the information on payments made locally is as follows:

Company Name	Paid to	Payment description	Amount (million MNT)
Bayanteeg JSC	Nariinteel soum, Uvurkhangai aimag Taxation department	Real estate tax	12
	Nariinteel soum, Uvurkhangai aimag Taxation department	Tax on vehicles and self-moving mechanisms	2
	Nariinteel soum, Uvurkhangai aimag Taxation department	Land use fee	2
	Nariinteel soum, Uvurkhangai aimag Taxation department	Fee for water use	1

Company Name	Paid to	Payment description	Amount (million MNT)
	Umnugovi aimag Governor's office	Dividends on Local property	16
		Total	33
Darkhan Tumurlugiin Uildver LLC	Darkhan city Taxation department	Real estate tax	7
	Darkhan city Taxation department	Tax on vehicles and self-moving mechanisms	38
	Darkhan city Taxation department	Land use fee	62
	Darkhan city Taxation department	Fee for water use	7
	Darkhan city Taxation department	Others	25
		Total	138
Mogoin gol JSC	Khuvsgul aimag Taxation department	Real estate tax	10
	Khuvsgul aimag Taxation department	Tax on vehicles and self-moving mechanisms	1
	Khuvsgul aimag Taxation department	Land use fee	3
	Khuvsgul aimag Taxation department	Fee for water use	0
	Khuvsgul aimag local state property office	Dividends on Local property	2
	Khuvsgul aimag Governor's office	Нөхөн төлбөр	1
		Total	17
Mongolrustsevet met LLC	Khentii aimag and Bayanzurkh district Taxation department	Real estate tax	51
	Khentii aimag and Bayanzurkh district Taxation department	Tax on vehicles and self-moving mechanisms	11
	Khentii, Dornogovi and Tuv aimag Property relation office	Land use fee	30
	Khentii and Dornogovi aimag Taxation department	Fee for water use	220
	Khentii aimag Taxation department	Others	5
		Total	318
Oyu Tolgoi LLC	Bayanzurkh district Taxation department and Khanbogd soum, Umnugovi aimag	Real estate tax	9,165
	Sukhbaatar district Taxation department and Khanbogd soum, Umnugovi aimag	Tax on vehicles and self-moving mechanisms	43
	Khanbogd soum, Umnugovi aimag Taxation department	Land use fee	1,849
	Khanbogd soum, Umnugovi aimag	Fee for water use	12,692
	Khan-Uul district Taxation department	Fees for use of mineral resources of wide spread	399
	State Professional Inspection Agency	Penalty	1
	Sukhbaatar district, Khan-Uul district and Chingeltei district Taxation department	Others	2
		Total	24,151
Tavantolgoi JSC	Umnugovi aimag Taxation department	Real estate tax	24
	Umnugovi aimag Taxation department	Tax on vehicles and self-moving mechanisms	1
	Umnugovi aimag Taxation department	Land use fee	59
	Umnugovi aimag Taxation department	Fee for water use	29
	Umnugovi aimag Governor's office	Dividends on Local property	1,537
	Umnugovi aimag State Professional Inspection Agency	Penalty	0
		Total	1,651
Shivee-Ovoo JSC	Govisumber aimag Taxation	Real estate tax	74

Company Name	Paid to	Payment description	Amount (million MNT)
	department		
	Govisumber aimag Taxation department	Tax on vehicles and self-moving mechanisms	2
	Govisumber aimag Taxation department	Land use fee	3
	Govisumber aimag Taxation department	Fee for water use	520
	Govisumber aimag Taxation department	Others	200
		Total	801
Erdenes Mongol LLC	Chingeltei district Taxation department	Tax on vehicles and self-moving mechanisms	1
		Total	1
Erdenes Tavantolgoi JSC	Tsogttsetsii soum, Umnugovi aimag Taxation department	Real estate tax	49
	Chingeltei district Taxation department	Tax on vehicles and self-moving mechanisms	5
	Umnugovi aimag Taxation department	Land use fee	237
	Umnugovi aimag Taxation department	Fee for water use	55
		Total	347
Erdenet Mining LLC	Orkhon aimag Governor's office	Real estate tax	4,316
	Orkhon aimag Governor's office, Bayanzurkh district Taxation department	Tax on vehicles and self-moving mechanisms	55
	Orkhon and Bulgan aimag Governor's office, State Property Relation Office	Land use fee	7,978
	Orkhon aimag Governor's office	Fee for water use	10,126
	Bulgan aimag Governor's office	Fees for use of mineral resources of wide spread	44
		Total	22,519

3.7.9 QUASI-FISCAL EXPENDITURES (REQUIREMENT 6.2)

Pursuant to the EITI standards, quasi-fiscal expenditures include arrangements whereby SOE(s) undertake public social expenditure such as payments for social services, public infrastructure, fuel subsidies and national debt servicing, etc. outside of the national budgetary process.

Other companies either reported that there are no payments similar to the budget expenditure or failed to deliver information in this regard.

3.8 BUDGET PROCESS AND REVENUE ALLOCATION

3.8.1 GENERAL

3.8.1.1 Components of budget revenue

More than 20 types of taxes are collected from the companies in exploration sector for the state and local budgets. These are set out in the Budget Law of Mongolia.

The Budget Law of Mongolia was approved initially on December 21, 1992 and amended on 2002 and 2011 respectively. The Budget law which was ratified on December 23, 2011 came into effect on January 1, 2013.

The state and local budget revenue components are showed in a table below:

State budget revenue		Local budget revenue	
		Aimag/city budget revenue	Soum/district budget revenue
Tax revenue			
Profit and Property taxes	<ul style="list-style-type: none"> - Corporate income tax - Value added tax - Customs tariffs - Excise tax - Stamp duty that is payable to foreign residents. 	<ul style="list-style-type: none"> - Taxes on salaries, wages, bonuses incentives and other employment income - City tax - Real estate tax - Inheritance and Gift tax - Stamp duty (except article 11.2 of the law on Stamp duty) 	<ul style="list-style-type: none"> - Income tax of self-employed person whose income is not predictable for a certain period of time. - Personal income taxes other than articulated by article 8.1.1 of the Law on personal income tax (taxes on sales of property tax, gambling and rental income) - Stamp duty
Mineral resources royalties	<ul style="list-style-type: none"> - Mineral resources royalties /100%/ - Licence fee on petroleum exploration /70%/ - Mining licence (survey, exploration) /100%/ - Licence fee on petroleum exploration (survey, exploration) /70%/ 	<ul style="list-style-type: none"> - Licence fee on petroleum exploration (survey, exploration) /20%/ 	<ul style="list-style-type: none"> - Licence fee on petroleum exploration (survey, exploration) (10%) - Royalties paid for the utilization of <i>widespread minerals</i>.
Fees on other natural resources	<ul style="list-style-type: none"> - Water pollution fee 	<ul style="list-style-type: none"> - Fee of water used for the manufacturing and services 	<ul style="list-style-type: none"> - Fees on water and mineral water for the use of potable and household water - Fees on use of game animal resource and hunting fee - Licence fees on natural resources except minerals. - Natural plant use fee - Fee for the use of the forest and its trees.
Environmental taxes	<ul style="list-style-type: none"> - Tax on petrol and diesel fuel - Fee for air pollution 	<ul style="list-style-type: none"> - Vehicle tax - Land fee 	<ul style="list-style-type: none"> - Service fees for waste collection - Gun taxes
Non-tax budget revenue			
	<ul style="list-style-type: none"> - Dividend paid by entities except the state owned legal entities and entities with state participation as stated by the article 3.2.1, The Human development law - Fee for use of state property and sales income - Other revenue streams into the state budget in as defined by the laws and regulation. 	<ul style="list-style-type: none"> - Dividends collected from legal entities owned by local government, and entities with local government participation - Fees for use and disposals of local government property and income from interest and penalty charges. - Other revenue streams into the aimag/city (soum/district) budget 	

Source: Budget law, Extractive industries revenue management, Gerege Partners LLC, 2016

Budget data provided by the Ministry of Finance for revenues specific to the extractive industries and collected in the State budget for 2010-2015 shows:

(MNT'bln)						
Kind of revenue	2010	2011	2012	2013	2014	2015
Licence fees for research and use of mineral resources	20.6	26.9	28.2	38.9	44.3	40.1
Fees for use of mineral resources and additional fees	-	-	-	139.3	173.3	183.1
Oil exploration revenue	54.7	75.9	108.4	187.7	285.6	164.3

Source: Ministry of Finance

According to the Budget law, Mining taxes have been distributed to the local budget until 2013 and therefore no revenues recorded for 2010-2012.

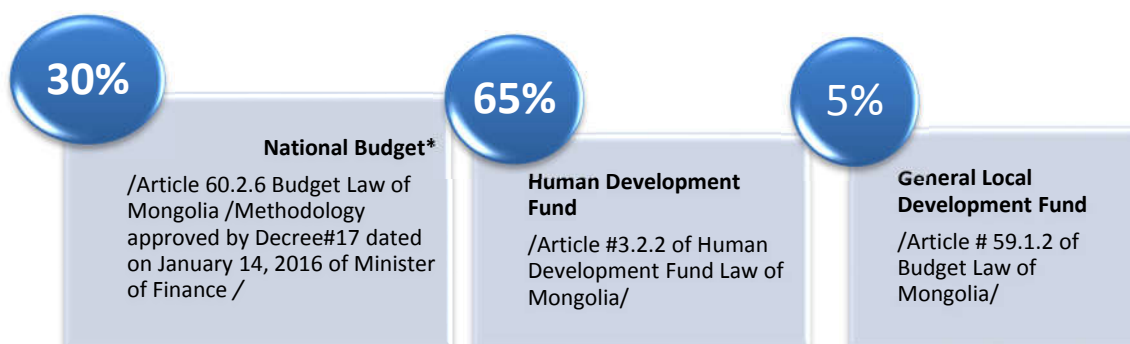
3.8.1.2 Extractive industry revenue centralization and distribution

Revenues contributed by the extractive industry may in some cases be distinguished from the other economic sectors where the taxes and fees relate specifically to the sector; for example, fees for use of mineral resources, licence fees for exploration and production of mineral resources, oil and petroleum. Equally, revenues contributed by the extractive industry to finance the Human Development Fund and Local Development Fund are readily identifiable and may be monitored. The operation of these funds, particularly the Local Development Fund is reviewed and monitored³².

On the other hand, much of the State budget revenue is contributed through corporate income tax, Value Added Tax, Customs Tax and the extractive sector's revenue share to the Government in accordance with the Production Sharing Agreement. These types of revenue are paid by all companies, extractive and non-extractive alike and are all mixed in a large National pot, with distributions regulated by centralized rules. This makes it difficult, or in some cases impossible, to separately report the use of revenue by the extractives sector and non-extractives sector (MOF; Budget policy planning department, 2015).

Revenue allocation from the mineral resources taxes such as mineral resources exploration fee, mining licence fee (exploration, operations), oil and gas licence fee (exploration, operations) is regulated by the amendment to the Budget Law on May 21, 2015 as follow

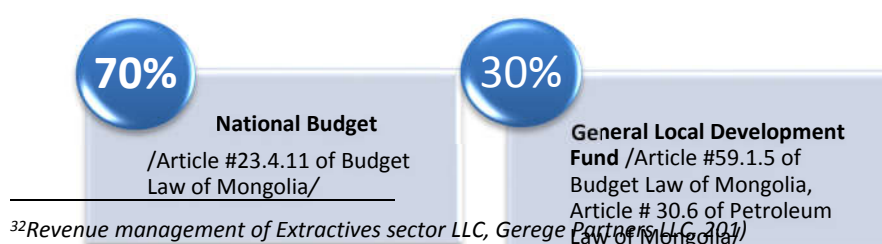
- Below are the revenue distribution of the mineral resources exploration:



*The State budget includes 30% of the revenue from the Mega projects and 100% of the revenue from the Erdenet, Oyu tolgoi and Tavantolgoi remained in the state budget. Other tax revenues from other mining companies are spitted by 70%, 20% and 20%. 70% contributed to the State budget 20% to the aimags' local development funds and 10% to the soums' funds. Revenues to the aimags and soums local development funds are related to the level of mining exploration.

According to the article 60.5 of the amendment to the Budget law on May 21, 2015 "not less than 33% of revenue stated article 60.2.6 of this law shall be distributed to the soum and district development fund where the mineral resources exploration is located

- Oil resources exploitation fee

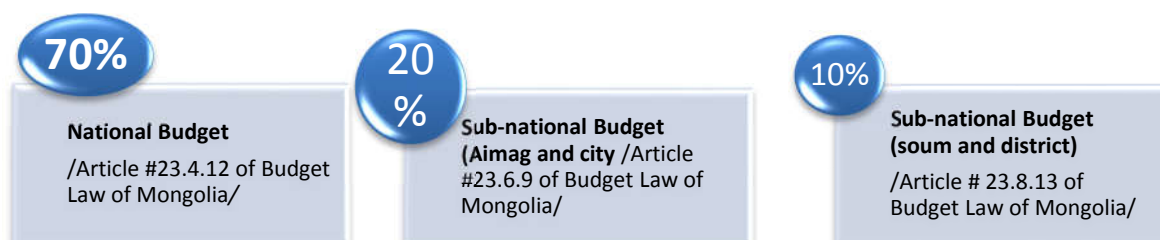


³²Revenue management of Extractives sector LLC, Gereg (Pvt) Ltd

- **Fee for exploitation and exploration licences**

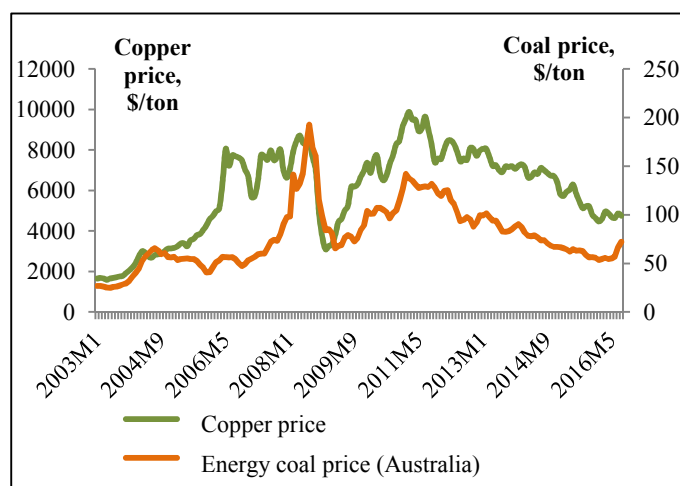


- **Fee for exploitation and exploration licences of oil**



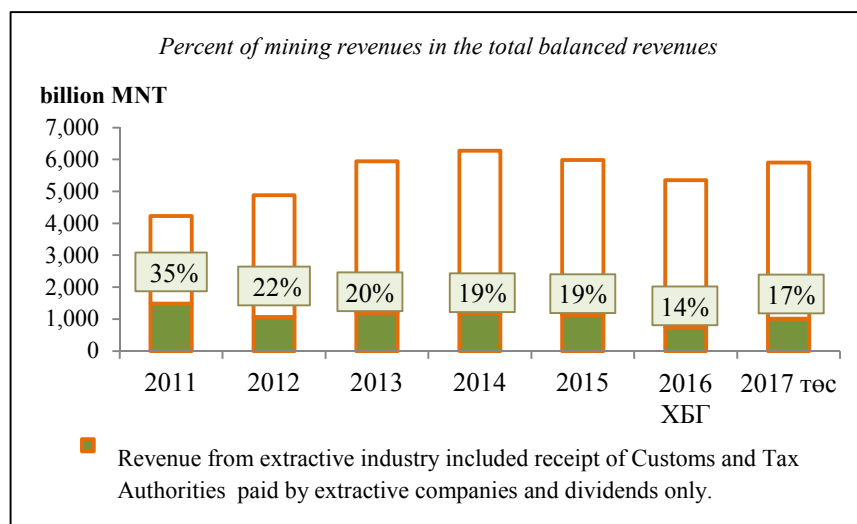
3.8.1.3 The cases when a revenue contributed by an extractive sector was not registered and transferred to State budget

The Ministry of Finance provided information relating to revenues which may not be registered to State budget, and information on taxes paid in advance. This revealed that at the end of 2015, USD 20.8 mln or MNT 41.4 billion remains from the USD 250.0 mln received from Oyu Tolgoi LLC as an advance tax payment. In addition, in 2015 Erdenes Tavan Tolgoi LLC utilised the balance of its earlier tax advance of 416.1 bln MNT.



3.8.1.4 Revenue stability and dependence on minerals

The Ministry of Finance provided information on possible changes in future budget cycles, forecast production volumes for the extractive industry, trends of minerals market prices, a preliminary forecast of revenues expected from extractive sector and the expected percentage of extractive sector's revenues in the State budget.



Mongolia exports 20 types of mineral products as copper concentrate, coal, zinc concentrate, iron ore, fluorspar etc. The revenues deriving from export of these products and accruing to the State budget have constituted on average around 23% of budget revenues during last 5 years, with the highest amount (35%) achieved in 2011. This

percentage has been declining continuously during recent years and it is likely to be 14% in 2016. It can be seen that the dependence of budget revenues on the mining sector has been reducing during every year.

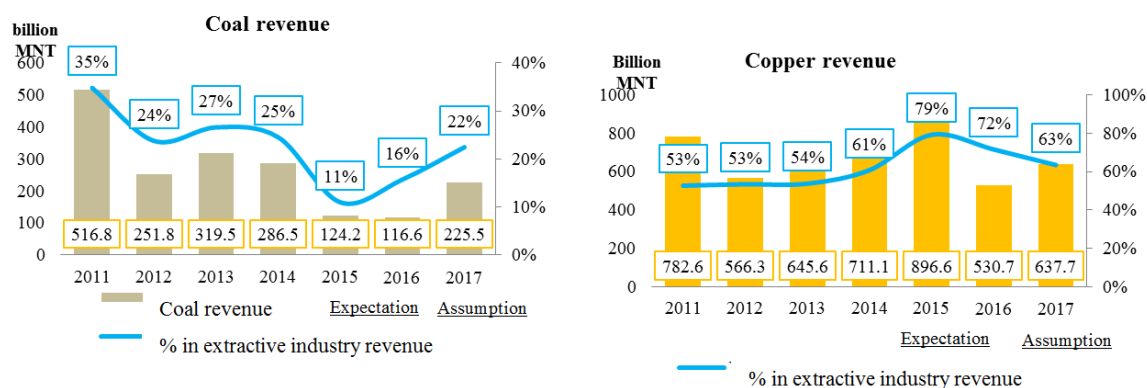
The expected total amount from mining sector in 2017 is 1,004.4 billion MNT, an increase of 35% on the expected performance for 2016, which is related to a forecast increase in production and revenues for the Oyu Tolgoi, Tavan Tolgoi and Gatsuert projects. 92% of all forecast 2017 revenues from the mining sector will come from gold, copper and coal revenues. From this amount, 22% or 226 billion MNT is from coal export, 63% or 638 billion MNT from export of copper concentrate.

No	Types of products	Tangible volume	Corporate Income Tax	Plan for 2017 (by billion MNT)				
				Royalties	Dividend	Other taxes	Customs duties	Total
1	Gold /ton/, domestic	14.8	8.4	28.5	-	19.2	-	56.0
	Coal /mln tons/	31.3	27.5	61.3	-	102.2	34.6	225.5
2	Export coal	23.0		56.9	-		34.6	
	Domestic coal	8.3		4.4	-		-	
3	Copper concentrate /thous.tons/, the related minerals are inclusive	1,500.0	72.8	183.8	6.9	372.0	2.3	637.7
4	Zinc concentrate /thous.ton/	80.0	3.4	7.8	-	2.1	0.1	13.4
5	Iron ore /mln tons/	6.0	1.7	21.2	-	4.7	9.0	36.6
6	Others		1.9	14.7	-	18.1	0.41	17.1
	TOTAL AMOUNT		115.7	317.3	6.9	518.2	46.3	1,004.4

Source: Ministry of Finance

The percentage of coal revenue among all mining revenues was 35% in 2011. Despite, due to the continuous decrease of coal price during recent years this percentage might be as low as 22% in the next year. The significant source of budget revenue or revenues from an export of copper concentrate has contributed around 60% of all mining revenues during last 5 years. It is likely that export of copper concentrate will not be increased significantly in 2017 and the revenue of the additional payment for royalties will not be created depending on copper market prices. However,

the revenue of mining sector is likely to increase in the next year due to commencement of the significant mining projects.



Source: Ministry of Finance

It is forecast that Oyu Tolgoi LLC will produce and sale 850,000 tons of copper concentrate in 2017 and pay to the state budget totally 462.3 billion MNT as taxes and `Erdenet Mining Corporation` LLC will produce 650,000 tons of copper concentrate, 4,219 tons of molybdenum concentrate in 2017 and pay to the state budget a total of 175.4 billion MNT as taxes and revenue for dividend.

The forecast increase in the Oyu Tolgoi, Tavan Tolgoi and Gatsuert projects is likely to increase the percentage of mining sector revenue among all revenues, which might reach 17% in 2017.

3.8.2 GENERAL LOCAL DEVELOPMENT FUND (REQUIREMENT 5.2)

In accordance with the law on Local Development fund, the fund receives income from reallocation of part of the state budget revenues in order to support and provide sustainability of the local development.

The General Local Development fund has the following revenue sources:

- 5% of total VAT from goods and services except imported goods and services (this article was redrafted by the law on Nov 10, 2015 and amended of the Sep 9, 2016, and will be enforced from Jan 1, 2017)
- 5% of the mineral royalties;
- Grants and donations rendered by domestic non-governmental organisations and official foreign aid to support local development;
- Transfers from lower level funds to upper level funds; and 30% of the oil resource royalties.

There are separate development funds for each city, district, aimag and soum.

Revenue sources of the local development funds are:

- Transfers allocated from the General Local Development fund;
- Property stated in Article 59.2 of this law.
- Additional revenue accumulated through tax increases and cost savings
- Grants and donations provided by domestic non-governmental organisations and official foreign aid to support local development;

- 10% of the balance remaining after deducting royalties accumulated from legal entities implementing government related big projects and activities from total mineral resources royalties (*this article amended by the law dated May 21, 2015*);
- 50% of the revenue from mineral resources exploration and production licence fees to the Local Development Fund.

Above system developed for the General Local Development fund and its distributions are available by each aimag, city, soum and district³³.

The following indicators are taken into account when defining transfers from the General Local Development Fund to the local budget in any fiscal year as required by the article 59.3, Budget law.

- Development index of local government - 25%;
- Population –25%;
- population density, remoteness and size of territory - 25%;
- tax initiatives of local government - 25%.

In 2015 revenue distributed to the local development fund was MNT 105.9 billion. This came from local VAT (70.4% or MNT 77.6 billion), Mineral resource exploration licence fees (18.2% or MNT 19.4 billion), the reallocation of the revenue collected from the aimag and city (5.9% or MNT 6.3 billion) and VAT on oil exploration (5.5% or MNT 5.9 billion)

Revenue transferred from the general local development fund to the local development fund of the aimag and city amounted to less than MNT 21.2 billion due to revenue cut by 40%, with the reallocation from aimag and city funds and VAT revenue cut by 43%.

Planned revenue and actual performance is set out in the table below:

In MNT'mln

#	Source	Planned	Performance	Percentage
1	Local VAT*25%	72,783.0	82,456.5	113.3
2	Mineral resource licence fee *5 %	21,347.5	27,152.9	127.2
3	Reallocation from aimag and city.	21,704.4	12,989.2	59.9
4	Oil and gas VAT 30 %	11,324.0	6,415.6	56.6
Total		127,159.0	129,014.1	

Source: National audit office

Transfer of funding for 2015 from the General local development fund to the local development fund showed below:

In MNT'mln

Aimag	Remaining balance of the prior period	Revenue transfer from General local development fund	Remaining profit on the budget balance	Increased tax rate	Grant	Others	Total	% of local revenue	Aggregated source
Arkhangai	787.9	4,189.9	-	111.3		47.9	159.2	3.07%	5,137.0
Bayan-Ulgii	650.8	4,898.2	-		50.0	392.1	442.1	7.38%	5,991.1
Bayankhongor	158.8	3,816.3	-			431.6	431.6	9.79%	4,406.7
Bulgan	1,802.7	3,588.9	-		257.7	-	257.7	4.56%	5,649.3
Govi-Altai	1,285.8	4,732.1	-		134.9	44.9	179.8	2.88%	6,197.7
Dornogovi	86.9	2,721.1	887.6	200.0	9.0	-	1,096.6	28.02%	3,904.6

³³ <http://www.tusuv-oronnutag.mn/>

Aimag	Remaining balance of the prior period	Revenue transfer from General local development fund	Remaining profit on the budget balance	Increased tax rate	Grant	Others	Total	% of local revenue	Aggregated source
Dornod	192.4	3,535.5	-		5.9	-	5.9	0.16%	3,733.8
Dundgovi	144.9	4,282.9	204.9		-	-	204.9	4.42%	4,632.7
Zavkhan	64.2	3,935.7	167.8		-	-	167.8	4.03%	4,167.7
Uvurkhangai	2,372.7	3,777.8	2,444.7		68.5	33.8	2,547.0	29.28%	8,697.5
Umnugovi	737.1	4,006.8	340.0	8.1	7.1	-	355.2	6.97%	5,099.1
Sukhbaatar	-	3,812.3	978.0		583.8	-	1,561.8	26.21%	5,374.1
Selenge	398.7	4,615.8	-		-	10.0	10.0	0.20%	5,024.5
Tuv	1,403.1	4,674.9	2,252.0	8,379.5	185.5	-	10,817.0	64.02%	16,895.0
Uvs	916.2	3,817.1	-		0.7	778.7	779.4	14.14%	5,512.7
Khovd	162.5	4,338.4	-		120.8	33.9	154.7	3.32%	4,655.6
Khuvsgul	15.3	4,573.2	-	135.5	-	1,233.7	1,369.2	22.98%	5,957.7
Khentii	31.7	4,094.8	647.1	25.7	73.7	130.1	876.6	16.60%	5,003.1
Sukhbaatar	31.4	4,012.4	233.6	1,474.5	1,655.0	870.7	4,233.8	51.15%	8,277.6
Selege	346.2	3,709.6	-	-	-	2.0	2.0	0.05%	4,057.8
Uvs	240.8	3,890.9	-	-	559.0	576.6	1,135.6	21.56%	5,267.3
Ulaanbaatar	4,619.3	20,960.0	-	-	-	-	-	0.00%	25,579.3
Total	16,449.4	105,984.6	8,155.7	10,334.6	3,711.6	4,586.0	26,787.9		149,221.9

Source: 2015 audit report of National audit office

A table below shows a selection of the projects implemented by a financing of the Local development fund:

Aimag	Projects		Procurement regulation /by quantity/				No procurement process performed
	Transfer from the prior period	Current year	Open tendering	Comparison	Procurement	Direct contracting	
Arkhangai	66	149	9	0	39	58	43
Bayan-Ulgii	180	119	8	0	13	98	0
Bayankhongor	107	260	5	0	34	184	37
Bulgan	13	213	14	0	68	103	28
Govi-Altai	51	229	27	26	27	121	28
Dornogovi	50	82	8	1	9	53	11
Dornod	76	27	8	0	6	13	0
Dundgovi	0	62	7	6	25	18	6
Zavkhan	0	110	10	3	29	68	0
Uvurkhangai	49	161	15	20	43	83	0
Umnugovi	18	327	31	2	19	227	48
Sukhbaatar	36	65	4	0	35	26	0
Selenge	121	157	10	0	60	87	0
Tuv	65	152	38	1	31	56	26
Uvs	48	233	3	0	65	142	23
Khovd	99	226	20	2	61	143	0
Khuvsgul	35	185	10	0	64	111	0
Khentii	73	263	11	0	37	177	38
Sukhbaatar	86	111	10	0	14	87	0

Aimag	Projects		Procurement regulation /by quantity/				No procurement process performed
	Transfer from the prior period	Current year	Open tendering	Comparison	Procurement	Direct contracting	
Selege	102	115	7	0	52	27	29
Uvs	83	192	5	0	107	27	53
Ulaanbaatar	77	354	43	85	125	40	61
Total	1435	3792	303	146	963	1949	431

Source: 2015 audit report of National audit office

The National Audit Office conducted an audit in 2016, to evaluate whether the revenue planning, structure, distribution and utilization of the 2015 local development fund complied with the laws and regulations.

According to the audit report, there were several instances of non-compliance regarding the fund contribution and utilization.

- Revenue was not planned and distributed according to the law.
- Other revenue sources were not collected by the category in the law, and the revenue increase was insufficient.
- Monitoring of projects and programs financed by the local development fund was inadequate.

The audit identified breaches amounting to MNT 47.9 billion and imposed a penalty of MNT 0.5 billion and made an official order to fix MNT 32.6 of the breach as well as an audit recommendation to adjust MNT 14.8 billion breaches.

3.8.3 HUMAN DEVELOPMENT FUND

The Human Development Fund was established to create savings and an incremental permanent reserve from EI revenue. As stated in the Budget Law, the Human Development Fund consists of revenues that are collected and spent in accordance with the Human Development Fund Law, which was approved by Parliament on 18 November 2009.

Article 18 and 19 of the law will be annulled from the July 1, 2016 and other articles will be annulled from Jan 1, 2017.

The revenue for the Human Development Fund comes from:

- Dividends from and sale of government shares in legal entities holding production licences of strategically important mineral deposits;
- 65% of mineral resources royalties from legal entities extracting and producing mineral resources;
- Net profit from the Human Development Fund's investments in securities and bonds (annulled by the law on Jan 29, 2016)

According to the Human Development Fund Law, Mongolian citizens may receive following benefits from this fund through

- payments for pension and medical insurance,
- payments for apartment purchases,
- cash
- medical and education service payments and

- cash for children.

The revenue and utilizations of the Fund are monitored and audited by the National Audit Office. The law states that the Human Development Fund is to be audited by reputable international audit firm and a report made to Parliament. However, no such report was found.

According to the 2015 Budget law³⁴, MNT 357 billion revenue of collection and MNT 329 billion of distribution were approved. In addition, investments financed by the Human Development Fund produced revenue in total of MNT 3 billion distributed for the purchases of construction and equipments for the child and family development units of Bayangol district, Ulaanbaatar and Khaikhan soum, Arkhangai aimag.

As stated per the Human Development Fund's consolidated financial statements for 2015 audited by the National Audit Office³⁵, MNT 328.8 billion of the funding accepted for the use of daily expenses. However, MNT 308.4 billion of funding was received and child cash funding was distributed short of MNT 20.4 billion. Remaining funding granted in January 2016.

Human development fund revenue and expenses for 2010-2015 are summarised in the table below:

(In MNT'bln)

	2010	2011	2012	2013	2014	2015*	Total
Revenue	158	314	441	394	427	423	2,157
<i>Of which: Revenue from the exploration licence fees</i>	117	138	216	196	288	331	1,286
Expenditures	(316)	(804)	(849)	(278)	(313)	(310)	(2,870)
Difference	(158)	(490)	(408)	116	114	113	(713)

Source: 2015 audit report of National audit office

One of the main sources of this fund's revenue is 65% of the revenue from mineral resources exploration fees.

Below is the spending of the Human Development Fund in 2015:

(in MNT'bln)

Classification	Plan	Performance	Difference
Total expenditures	328.8	308.4	-20.4
1 Health insurance payment for which the State is responsible	12	12	-
2 Cash to distribute to citizens (Money for children)	246	225.7	-20.3
3 Interest of Government bonds and advance payments	67.4	67.3	-0.1
4 Investment	3.3	3.3	-
5 Other expenses	-	0.2	-

Source: Ministry of Finance

According to the Article 12 of the Law on Social Care, 12.0 billion MNT was spent for health insurance payment for 1.5 million citizens as the children under 16, citizens who receive pension for old age, the women who care for their infants, disabled citizens, the soldiers who serve military terms, the citizens who receive the social care pension and day-time students of universities and institutes.

In 2015, 225,703,226,880 MNT was spent from Human Development Fund for 1,027,600 children between 0-18 years as the monthly 20,000 MNT for every child.

For interest payment of Government bonds issued in order to resolve the missing budget of Human

³⁴Эх сурвалж: <http://legalinfo.mn/law/details/10754?lawid=10754>

³⁵Эх сурвалж: <http://www.audit.mn/wp-content/uploads/2016/08/HVNII-HOGJIL-SANGIIN-OSO.V.pdf>

Development Fund and re-finance the debt it was paid 67.3 billion MNT and the remaining amount of Government bonds at the end of 2015 is 486.5 billion MNT.

3.8.4 FUTURE HERITAGE FUND: DRAFT LAW

Until the end of 2015, there was a Future Heritage Fund³⁶, which operated as described in this section.

In February 2016, the law was changed and the Future Heritage Fund was terminated.

As stated in the law, the funds are property of the local citizens and shall be a component of the state budget. Future Heritage Fund Corporation established in the scope of the law and manages the fund revenue. This shall be 100% of State owned entity. The corporation shall be made decisions independent from other organization and authorities.

Prior to its termination, revenue for the Future Heritage Fund's was drawn from:

- Dividends received from SOEs and other entities in possession of production licences for mineral deposits of strategic importance, and the proceeds from the sales of such shares;
- 65% of the remaining balances of mineral royalty payments collected in the budget after distribution to the Fiscal Stability Fund in accordance with the Fiscal Stability Law,
- Remaining balance of the fund's net investment income after transferring in accordance with Article 9.6;
- 50% of additional revenues collected to the state budget from legal entities conducting production of mineral resources as specified in Article 4.1.7 of the Minerals Law, by means of amending or revising laws and regulations of Mongolia, creating taxes through newly approved laws, or amendments made to the rate and level of taxes;
- Starting from 2018, 20% of the excess amount collected in the state budget over the base year's targeted minerals' revenues, excluding revenues mentioned in Article 7.1.1, 7.1.2, 7.1.3 and 7.1.4, is to be collected in the fund

According to article 12.1.5 of the law, revenue spending from the Fund was restricted until 2030. In other words, no expenses were to be used for operation and monitoring.

3.8.5 FISCAL SUSTAINABILITY FUND

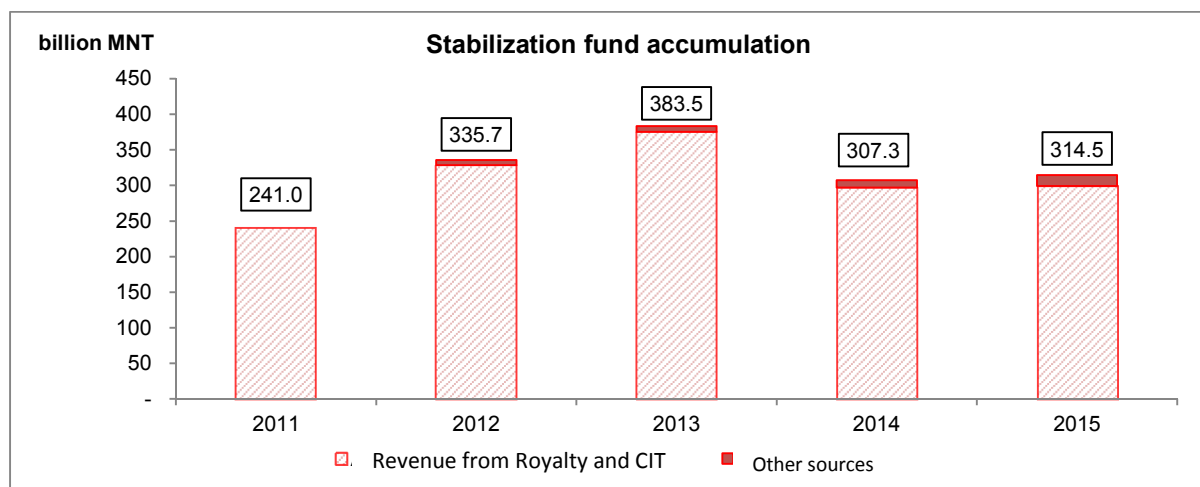
As regulated by articles 4.1 and 16.1 as well as article 91.2.1 of law on Government's special fund fiscal sustainability law, income from the mineral resources and integrated budget revenue is to be distributed to the Fiscal Sustainability Fund. According to the article 4.1.3 of the Law on Fiscal Sustainability Fund, the allocation is to be 3% and more of the 2015 integrated budget revenue determined as the key mineral resources from the oil and coal.

According to article 11.1.3 of the Law on Fiscal Sustainability, the main mineral and coal prices for 2015 have been calculated by the IMF, reputable international banks and international organizations based on the average prices of the previous 12 years, the current fiscal period, and the subsequent 3 years' average prices.

Law on Fiscal sustainability fund, article 5.1.4, prediction of the mineral products prices referenced from the worldwide used and familiar by the "Bloomberg", price defined at USD 6,354.7 per tonnage for mineral resource and USD 82.5 per tonnage of coal. MNT 29.8 billion was planned to contribute

³⁶ Source: <http://leginfo.mn/law/details/11707?lawid=11707>

to the Budget sustainability fund and decreased by MNT 2.3 billion according to the Budget addition in Oct 30, 2015. However, coal prices determined above prediction of the market prices therefore no revenue planned from the oil sector.



Source: MOF

Copper market prices realization was low during 2015 and no revenue transferred to the Fiscal Sustainability fund. However, MNT 2.3 billion revenue arose from a difference of the copper market prices was transferred to the Fiscal sustainability fund in January 2015. Preliminary performance of the annual statements for 2015 reported fiscal sustainability fund savings reached MNT 314.5 and no expenditure made during that year.

3.9 OTHER MATTERS

3.9.1 BENEFICIAL OWNERSHIP

3.9.1.1 Requirement

The requirements of the EITI Standard (section 2.5) include the following points:-

- The EITI Report should document the government's policy and MSG's discussion on disclosure of beneficial ownership, including details of the relevant legal provisions, actual disclosure practices and any reforms that are planned or underway related to beneficial ownership disclosure.
- By 1 January 2017, the multi-stakeholder group should publish a roadmap for disclosing beneficial ownership information. The MSG will determine all milestones and deadlines in the roadmap, and the MSG will evaluate implementation of the roadmap as part of the MSG's annual activity report. As of 1 January 2020, it is required that implementing countries request, and companies disclose, beneficial ownership information for inclusion in the EITI report.
- The EITI Report should also disclose the legal owners and share of ownership of such companies.

3.9.1.2 Beneficial ownership disclosure

There is no coordinated disclosure of ownership and beneficial ownership of companies in the extractive or other sectors in Mongolia³⁷.

³⁷ Олборлох үйлдвэрлэл эрхлэгч компаниудын "ашиг хүртэгч жинхэнэ эзэд"-ийн ил тод байдлыг хангах чиглэлээрх боломжит байдлын урьдчилсан судалгаа

Information on the founders of companies and their owners is registered by the governmental organizations as the Central Bank of Mongolia, General Taxation Office, State Registration Office, and Financial Regulatory Committee. However, the information is not coordinated and information sources are in many cases unofficial, with legal regulations against disclosure to community.

The Law on Information Transparency and the Right to Obtain Information (Article 20) prohibits governmental organizations from disclosure of any information kept by them except the surnames, last names, age, gender, profession, education, work position, address of work place and work phone without the written permission of that person.

The Law on Personal Confidentiality and the Law on Corporate Confidentiality affect disclosure of beneficial ownership, in particular:

- According to the Law on Corporate Confidentiality it is possible to refer to the confidential information a business entity's confidential information, technological solutions, project and documents of research and investigation, information related to the required equipments and machinery etc., which are related to the specifics of operations of the business entity or considered confidential and protected for the purpose of protecting its market share and strength in fair competition and disclosure of which may cause damage to its lawful interest.
- It is prohibited for legal entities that obtained the confidential information according to the respective laws or by a trusting documents to disclose to others the following information which were set forth by the Article 4, the Law on Personal Confidentiality:
 - Confidentiality of correspondence;
 - Health confidentiality;
 - Assets confidentiality;
 - Household confidentiality;
 - Other confidentiality set forth by legislation

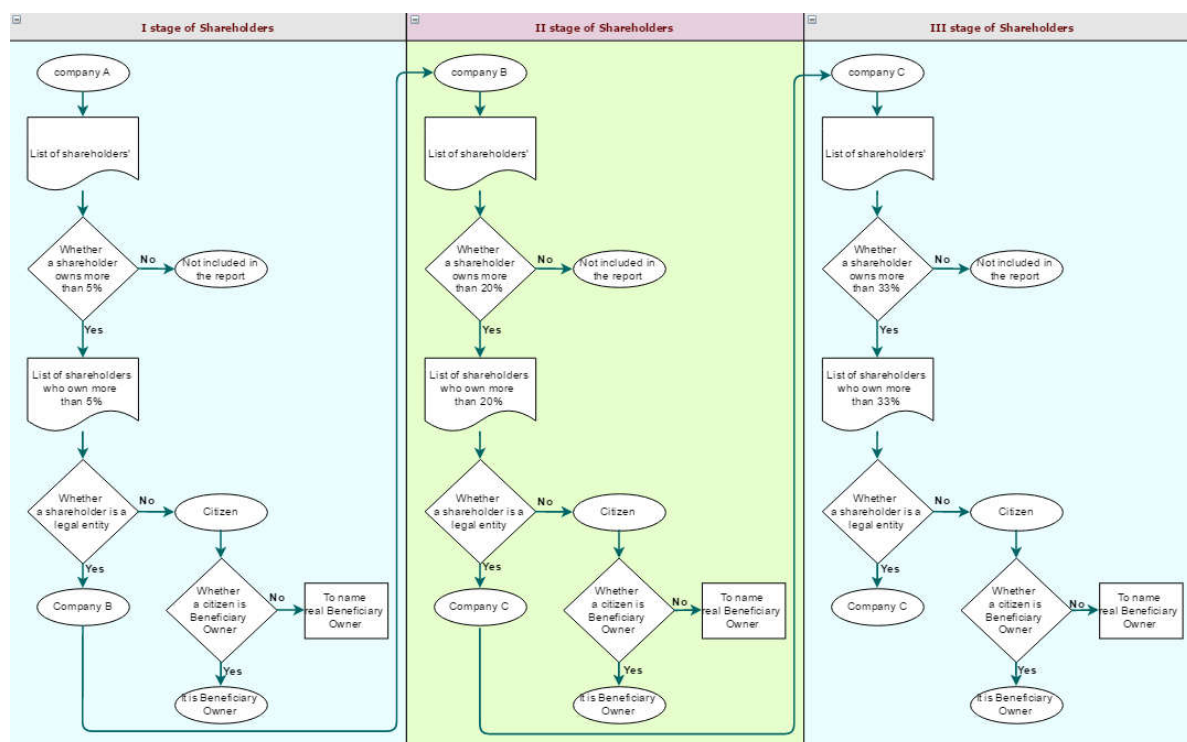
3.9.1.3 Mongolia's approach

In 2016, the Working Group appointed a sub-committee to investigate how the beneficial ownership requirements of the EITI Standard can be met in Mongolia. The sub-committee is in process of preparing a roadmap, and has carried out training on August 24-25, 2016 along with Natural Resource Governance Institute.

The 2013 EITI Report included the results of a survey carried out by the Independent Administrator about beneficial owners of 5 or more percent of the shares of the companies that give their EITI reports and that operate in the mining and petroleum sectors. 250 companies were requested to complete questionnaires and 215 of them gave their information about their legal ownership and in some cases, they also gave information about their beneficial owners. In total, 368 shareholders of 215 companies were identified and 215 of them were individuals, 144 of them were employees of companies and 13 of them were personnel of the central and local managing organizations.

The MSG decided that the 2014 EITI Report would investigate three levels of shareholding. It was aimed to involve at least 5% of the holders with preferred stocks at first stage and 51% of these shareholders at second stage. 30 companies of total 236 companies delivered their information on their shareholders in 2014 and beneficial owners of 6 companies were disclosed.

For the 2015 report, the Independent Administrator agreed with the MSG to develop the approach to the subject and requested companies to declare details of their legal and beneficial owners with shareholdings over specified thresholds:



As part of the sensitisation of companies to the requirements of the EITI Standard, the Independent Administrator arranged three training sessions in conjunction with the EITI Mongolia Secretariat for the reporting companies, to explain the concept of beneficial ownership and how to complete the 2015 EITI templates on beneficial ownership.

Information about beneficial ownership was requested from all 202 reporting companies, 51 companies responded. The responses may be summarised as follows:-

Individual shareholders identified	26
Did not disclose / refused to disclose	9
Corporate shareholder listed, no ultimate individual owner(s)	5
Several layers of ownership, no ultimate individual owners	4
Listed company ultimate owner	5
Government	1
TOTAL	51

Details of the responses are shown in Appendix 21a.

3.9.2 CONTRAC TRANSPARENCY

3.9.2.1 Legislative background

There are various laws and regulations which aim to create transparency in the extractive sector, for example

- the Law on Transparency of Information and Freedom to Obtain Information, enacted on 16 June 2016,
- the Law on Glass Accounts, on 1 July 2014,
- the Law on Supporting Economic Transparency, on 7 August 2015.

Mongolian Government Resolution 222 issued in 2012 authorised the Minister of Mining and Energy to commence a pilot public disclosure of Investment Agreements and Product Sharing Agreements for Petroleum, and their implementation. Some agreements, in particular, Investment Agreement for Oyu Tolgoi and Concession Agreement were disclosed.

- The Mongolian Parliament amended and changed the Petroleum Law in 2014 making it legally possible to regulate the relations respective to unconventional petroleum. The clause related to the confidentiality in the Model Agreement for Product Sharing Agreements was terminated.
- The General Law of Administration, enacted on June 19, 2015 includes a Clause that 'all agreements signed by governmental organizations shall be transparent'.
- During recent years, the Government has signed Concession agreements to support the construction of motorway, railway, structures of power, heating, water supply and other logistics structures devoted to the extractive industry. Article 6 and Clauses 6.4 and 6.5.9 of the Law on Glass Accounts enacted in 2014 state 'Legal entities with state and local ownership shall disclose information on Concession Agreements and Partnership Concession Agreements'. Despite this clause, only limited information has been published but not entire agreements'.

3.9.2.2 Other activities

The 2012 – 2016 Mongolian Government Action Plan included an initiative to develop further the requirements of the Extractive Industries Transparency Initiative. However, the 2017 – 2020 Mongolian Government Action Plan does not contain any actions related to transparency of mining sector.

On December 18, 2014 EITI Secretariat, 'Publish What You Pay', Civil Society Association and National Mining Association of Mongolia jointly organized a Discussion of Multi-Stakeholders entitled 'Contract transparency in mining sector' under the Open Society Forum of Minerals in Ulaanbaatar city with support of the Standing Economic Committee of Mongolian Parliament and Ministry of Mining.

The discussion covered the current laws relating to contract transparency in mining sector, their implementation, the experiences and lessons of foreign countries, problems experienced by participants relating to contract transparency, the ways to resolve them.

At the end of the discussions, the participants agreed on the following issues:

- In order to create contract transparency in mining sector, access to information and arrangement, there needs to be a united data bank, containing genuine copies of each Stability Agreement, Investment Agreement, Product Sharing Agreement, Agreement for Geological Operations and Pre-Mining Agreements signed between the Government, the organizations related to Government and the Investors for minerals sector, petroleum sector, natural gas sector and holders of licences. These agreements should be placed on the web sites of the respective governmental organizations to make them entirely transparent for the public;
- Under Article 42 of the Minerals Law, there needs to be increased contract transparency between the local governing organizations and the licence holders. These agreements should be

published on web sites and in information bulletins of local governing organizations; and the local governing organizations and licence holders should collaborate and initiate activities to distribute the information in to local residents in a suitable manner;

- Keep information transparently during all stages of an agreement - its establishment, approval, monitoring - and undertake evaluation of the implementation of these agreements
- Create the legal environment to encourage the participation of more parties, especially civil society, by promoting public lectures and community discussions,
- In addition, discussions were held on which information to disclose, during which period, how to disclose, how to involve citizens during negotiation of agreement clauses, and how to reflect these issues in legislation.

Within the scope of legislation which is validly followed in Mongolia the following agreements are being established by the governmental organizations in the geological, mining and petroleum sectors:

- Production Sharing Agreement (petroleum)
- Production Sharing Agreement (shale)
- Concession Agreement
- Stability Agreement
- Investment Agreement
- Agreement with local administration
- Agreement with Mineral Resources Authority
- Agreement with Petroleum Authority

According to the amendments and changes to the Minerals Law performed in 2014 the following four organizations of Government are entitled to approve the agreements signed for extractive industry:

- Parliament
- Government
- Mineral Resources Authority, Petroleum Authority
- Local governing organization.

The Model Agreement to collaborate with local areas, to supply work places for local citizens, purchase the local services, raw materials, protect and reclaim environment in order to deliver output of the projects to local areas and support local community and economy was approved and this Model Agreement contains the regulations with distinctive progress related to transparency and participation of local citizens. This Model Agreement will be approved by Government and local governing organizations shall sign it with the mining companies.

Ministry of Mining will work out the draft of this agreement jointly with World Bank, the legal firm Hogan Lovell's and the professional associations, local governing organizations will discuss these drafts together with civil society organizations.

The draft of Model Agreement to mine a deposit will be worked out by Ministry of Mining, organizing the discussions and Minister for Mining will approve it. The Agreements will be signed between Head of MRA and the companies.

To perform the requirements of 2.4 of EITI Standards, the united data bank of minerals agreements is in progress and its aim is to disclose texts of all agreements in this data bank. The previous negotiation between Ministry of Mining and Civil society organizations was reached and the work to

create databank was commenced. Despite, this databank was not completed to date. Petroleum Authority resolved to disclose all PSAs despite three agreements which were established after approval of the changes to the law are not being disclosed.

We obtained information on the agreements signed with local governing organizations from the companies involved to the united report and reflected them to online reporting system by the form of additional data and totally 141 agreement of 54 companies were delivered. Please see the extended information from Annex 22.

The 3rd Meeting of Mongolian Government held in 11 January, 2016 resolved to disclose the Petroleum Product Sharing Agreement to community which is an objective instance that Government supports Extractive Industries Transparency Initiative.

No	Types of agreements	Effective agreements	Transparent or not	Sources
1	Investment Agreement	1	Transparent	http://ot.mn/media/ot/content/about_us/IA/Oyu_Tolgoi_IA_MN.pdf
2	Stability Agreement	1	Transparent	
3	Petroleum Exploration Agreements	20	Non-transparent	
4	Petroleum Mining Agreements	3	Legal environment to disclose was created. Despite, Ministry of Mining did not disclose them.	
5	Petroleum Prospecting Agreements	16	Non-transparent	
6	Agreements with local area	16	Disclosed in EITI Mongolia web site	http://eitimongolia.mn/mn/contracts

3.9.2.3 Actual disclosure practice

The EITI Standard requires that where applicable, the EITI Report should provide an overview of the contracts and licences that are publicly available, and states that in this context, the term contract/licence means the full text and addenda (see Requirement 2.4 for the complete provision).

Except as mentioned earlier, these documents are not disclosed in Mongolia.

4 SCOPE AND METHODOLOGY

4.1 INTRODUCTION

The consortium of Hart Nurse Ltd, UK and Ulaanbaatar Audit Corporation LLC, Mongolia (“the Independent Administrator”) were required to undertake the work set out in the Terms of Reference for the Engagement. Unless noted in our report, the reconciliation has been carried out on a cash accounting basis, with both monetary and in-kind payments taken into account. .

In conducting our work, we have relied upon the completed reporting templates, information and explanations obtained from reporting entities. No verification is made as to the accuracy or completeness of such information.

If there are material payments or receipts omitted from the E-Reporting system or reporting templates by reporting entities, our work would not have been sufficient to detect them. Any such receipts or payments which were omitted would not therefore be included in our report unless they came to our attention through other means.

Our report incorporates information received up to November 28, 2016. Any information received after this date might not, therefore, have been included in the report.

4.2 DETERMINATION OF SCOPE

4.2.1 INTRODUCTION

The EITI Report can contribute to the development of policy for the extractive sector and aims to provide reliable information on the extractive industries to promote public awareness and discussion. Scoping sets the basis for producing a timely, comprehensive, reliable and comprehensible EITI Report.

In assessing the scope for the 2015EITI report for Mongolia, a number of areas were considered:-

- contextual information concerning the extractive industries to be included in the report;
- relevant non-financial information to be collected from entities participating in the reconciliation and from government sources more generally;
- Identifying material financial streams to be covered in the report
- Determining the extractive companies making material payments to government;
- Determining the government entities receiving material amounts;
- Consideration of the assurance environment in reporting government entities and in companies, and appropriate mechanisms for reporting entities to provide assurance on the figures reported

4.2.2 SCOPING AND INCEPTION WORKSHOP

A one day workshop was convened by the MEITI Secretariat on 19 August, 2016 to discuss and agree upon the scope of the 2015 EITI Report for Mongolia. The workshop was attended by representatives from all stakeholders – government, companies and civil society, and the discussion was led by the Independent Administrator.

4.2.3 SELECTION OF FLOWS FOR INCLUSION

The financial flows captured by the MEITI E-reporting system are based on the experience of previous years; the timing of our appointment was such that nearly all government entities and many companies had already reported on the system before the Engagement began and there was therefore limited opportunity to review the information specification. The MSWG decided that since not all entities had provided the required information on the MEITI E-reporting system, all flows on the system would be included, subject to the materiality threshold for differences, to ensure that all material flows are captured. Analysis of the reported data showed that national flows greater than 1,000 million MNT represented 99.8% of total flows.

The MSWG decided to include the following streams paid to the national budget:-

Financial streams	Government entities	Financial streams	Government entities
Excise tax on vehicle's gasoline and diesel fuel	GDT	Fee for recruiting foreign experts and workers	MoL
Custom taxation	GDT	Petroleum receipts of GoM from PSA	PAM
Customs service fee	GDT	Royalty	MRAM
Tax on vehicle's gasoline and diesel fuel	GDT	Licence fee for exploration and exploitation of petroleum	MRAM
Fee for exploitation of mineral resources (royalties)	GDT	Fee for supporting field office according to product sharing agreement	PAM
Corporate income tax	GDT	Bonus for training	PAM
Value added tax	GDT	Bonus after signing contact /only year of contact/	PAM
Fee for air pollution	GDT	Bonus for commencement of production	PAM
Others	GDT	Bonus for increases in production under Product Sharing Agreement	PAM
Licence fee for exploitation and exploration of mineral resources	MRAM	Fees for increases in size of exploration and exploitation area of petroleum	PAM
Payment for deposit, exploration of which was carried out by the Government	MRAM	Fees for transferring rights and duties of Product Sharing Agreement	PAM
50% Contribution to environmental protection special account	MOF	Service charges for order of exploration area of petroleum	PAM
Dividends on state property	MOF	Penalties	MRAM
Advance payments received by GoM	PAM	Recovery payment	MRAM
Income per Government according to nuclear energy law	MOF	Employers social and health insurance	SSIA

The MSWG decided to include the following streams paid to sub-national budgets:-

- Fee for water use
- Land fee
- Donations and support to Government entities
- Payment for recruiting foreign experts and workers
- Bonus for local development in according to product sharing agreement
- Fee for use of mineral resources of wide spread
- Tax on vehicle's gasoline and diesel fuel
- Penalty
- Fee for water pollution

- Compensation
- In-kind contribution at rate of 50% to Environmental protection special account
- Dividends on local state property
- Others

4.2.4 SELECTION OF GOVERNMENT ENTITIES

The government entities to be included in the 2015 EITI reconciliation are those which receive the selected flows, namely:-

The following national government entities were agreed by MSWG members to be included in the EITI reconciliation:-

- Tax and Customs Administration
- Mineral Resource and Petroleum Authority
- Ministry of Finance
- Ministry of Labour
- Social Insurance General Office
- Ministry of Environment, Green Development and Tourism of Mongolia

Sub national entities to be included in the report were agreed as:-

- Ulaanbaatar city's government
- District's government
- Aimak's government
- Sum's government

4.2.5 SELECTION OF COMPANIES

The rationale for selection of companies to be included in the reconciliation was to ensure that all companies making material payments to government were included. In making this determination, the MSWG took into account payments made at a sub-national level as well as a national level, so that companies making payments which were material to sub-national budgets would be included.

We reviewed the information on the MEITI E-reporting system at 19th July 2016; at this point, while the government information appeared to be substantially complete, many companies had not input their information, and accordingly the analysis to select the companies making material payments was based on the government data. National and sub-national receipt streams were considered separately in setting the definition of a materiality threshold.

Initial receipts from companies reported by Government on the MEITI E-reporting system were:-

Items	No. of companies	Million MNT
National taxes, payments and fees	1917	1,514,198
Sub national taxes, payments and fees		43,300
Total Mandatory flows	1917	1,557,498
Voluntary declarations		602
Total flows reported	1917	1,558,100

Mandatory flows are flows which all entities must report, typically representing payments which companies are required by law to make; while voluntary declarations are flows which the MSG

determines should be reported by companies on a voluntary basis. Details of the mandatory and voluntary flows are set out in section 4.2.3.

We reviewed the companies listed in the MEITI E-reporting system and identified a number which were not carrying out extractive activities. These companies, and the mandatory receipts reported by government, are:-

Companies	Reported receipt (M/MNT)	Companies	Reported receipt (M/MNT)
Magnai Trade	87,078	Gangar Invest	346
UBRR Rock Zavod	24,190	Agayan	329
Cashier Town	1,795	Undurbuyant Holding	323
Gatsuurt	1,533	Ochir Center	309
Ochir Undraa	1,530	Kherlen impeks	273
TESO	1,501	Altai Construction	252
Narantuul Trade	821	Reactive	251
GBT Trading	668	Bridge Construction	245
ESTO	601	Itgelt Khuleg	205
MIS	475	Remicon	202
National Engineering group	394	DHL	182
Bayars Construction	365	Geomaster	147
Terguun Invest	358	Khuvsgul road	145
		Net income	124,518

These companies were excluded before carrying out the assessment of materiality.

The receipts reported in the e-system by government for (adjusted) extractive companies, were:-

Items	No. of companies	Million MNT
Mandatory flows	1,891	1,432,980
Voluntary declarations		602
Total flows reported	1,891	1,433,582

These adjusted flows were analysed into payment bands to assist with selection of the companies making material payments:-

Total flows	Total			National		Sub-national	
	No. of companies	Reported flows	%	Reported flows	%	Reported flows	%
MNT bn		MNT bn		MNT bn		MNT bn	
> 150	3	1,069.5	74.6%	1,044.3	75.1%	25.2	59.0%
>10 <150	7	169.1	11.8%	168.1	12.1%	1.0	2.3%
>1 <10	35	120.5	8.4%	111.1	8.0%	9.5	22.2%
>0.5 <1	25	17.2	1.2%	14.6	1.1%	2.6	6.1%
> 0.1 <0.5	166	32.7	2.3%	30.1	2.2%	2.6	6.1%
<0.1	1,655	24.0	1.7%	22.1	1.6%	1.8	4.2%
	1,891	1,433.0		1,390.3		42.7	

This analysis shows that 96.2% of flows to national government were paid by 70 companies which made payments of more than 500 million Tugrugs in 2015; and that these same companies

accounted for 89.7% of payments to sub national government in 2015. Overall, payments to government (national and sub national) in 2015 from these 70 companies totalled 1,376.3 billion Tugrugs, representing 94.8% of reported government receipts.

The MSWG decided:-

1. to include the 70 companies whose receipts (national and sub national combined) reported by government exceeded 500 million Tugrugs; and
2. to include also 11 companies whose sub national receipts (taxes, payments and fees) exceeded 150 million Tugrugs, as reported by government; and
3. to include in addition 121 companies whose receipts reported by government exceeded 100 million Tugrugs but were less than 500 million Tugrugs. Selection of these companies took into account factors such as
 1. increasing coverage of national payments and sub national payments; and
 2. examining any material differences in amounts reported by government and companies (e.g. where government reports receipts totalling 100 million Tugrugs and the company reports 1 billion Tugrugs; and vice versa); and
 3. other aspects arising from a comparison of government and company reports, past payment profile, etc.
 4. whether the company conducted extractive activities and was in production and made sales in 2015

Following this approach, the final selection of companies may be summarised as:-

Threshold	Total financial flows		Financial flows of selected companies		%
	Number	Amount (MNT bn)	Number	Amount (MNT bln)	
Companies making total payments more than 500 million Tugrugs to National budget	70	1,376.4	70	1,376.4	100
Companies making total payments less than 500 million Tugrugs but more than 100 million Tugrugs to National budget	155	30.0	121	26.1	87
Companies making payments more than 150 million Tugrugs to Sub national budget	11	2.6	11	2.6	100
Companies making payments up to 100 million Tugrugs	1655	24.0		0	0
Total	1891	1,433.0	202	1,405.1	98.05

202 companies were selected, accounting for 98.05% of total financial flows reported by government on the MEITI E-reporting system at 19th July 2016.

A detailed list is included at Appendix 1.

4.2.6 TEMPLATES USED IN THE 2015 RECONCILIATION

A licence holder should report the taxes and fees paid to state and local budget and quantity of sold products information as per the approved templates and makes available publicly under the Article 48.1 of Minerals Law of Mongolia; Article 36.1 of Petroleum Law of Mongolia; Article 28.6.4 Nuclear Energy Law of Mongolia and Article 34.10 of Law on Widespread Minerals.

The EITI templates are renewed by Ordinance #43 approved from Minister of Finance dated on 5 February 2016 as agreed by Head of National Statistical Commission which shall be reported by companies those hold licences and government entities.

As stated in the Terms of Reference, the Independent Administrator should submit to MSGS its developed reporting templates for EITI 2015 reconciliations which cover 'all the material amount of payment and receipts' above the agreed materiality threshold in accordance with the reporting templates and receipts flows approved by the Ministry of Finance.

When the Independent Administrator commenced the engagement on 19 July 2016, the 2015 EITI report had already being received via the e-reporting system, starting from 10 June 2016 based on sample templates. It was therefore not possible for the Independent Administrator to prepare reporting templates for use in the 2015 reconciliation or to comment in advance of the data collection exercise.

Mongolia EITI Secretariat combined the above mentioned templates into 1 set of template via e-reporting system and received the reports for the year 2015. While comparing templates in e-reporting system and approved templates, although the format is not exactly the same, information requested by the e-reporting system contained all the required information by above mentioned 6 templates and covered all the financial streams.

4.2.7 DATA COLLECTION AND COMPARISON

Independent Administrator used the e-reporting system to collect information and determined initial differences.

We prepared Appendix as per each payment type to clarify the occurred difference and template of Management representation letter. Then we sent letters and received responses from government organization and companies covered in the reconciliation.

Information required by Terms of Reference is collected from two sources: companies and government entities via paper and electronic based information.

Information from companies regarding reasons of initial discrepancies will be gathered by paper basis, additional information will be collected by e-reporting system, and management representation letter from companies will be collected by paper basis to assure the reliability of collected information.

In addition, representation letter from Government entities should be issued for confirming the reliability of their provided information regarding mining sector background information and statistical data.

4.2.8 MATERIALITY THRESHOLD

It was agreed during the Inception Workshop that immaterial differences would not be investigated during the EITI reconciliation. Differences which would be investigated are described below.

4.2.8.1 *National Government flows*

Where a difference between the amount reported by government and company differs (up or down) by more than the amount below, the difference will be investigated until it is reduced to below this level, within the timeframe permitted. The thresholds for investigation are proposed at:-

Any individual flow	Difference of more than MNT 500.0 million
For an individual company	Difference of more than MNT 1,000.0 million (net)

4.2.8.2 Sub national Government flows

Where a difference between the amount reported by government and company differs (up or down) by more than the amount below, the difference will be investigated until it is reduced to below this level, within the timeframe permitted. The thresholds for investigation are proposed at:-

Any individual flow	Difference of more than MNT 25.0 million
For an individual company	Difference of more than MNT 50.0 million (net)

4.2.9 LEVEL OF DISAGGREGATION

The EITI Standard requires (Requirement 4.7) that “the multi-stakeholder group should agree the level of disaggregation for the publication of data...and that EITI data is presented by individual company, government entity and revenue stream”.

During the inception workshop with EITI Working Group, the methodology for the 2015 Mongolia report was discussed.

Some members of WG suggested that the importance and use of EITI reports would be further improved by preparing EITI Reconciliation report per each aimag or region such as Gobi region. It was noted that this was not in the Terms of Reference for the current report, although certain information is provided in the Appendices in this format.

Reporting at project level is required by EITI Standard; however, project level data was not included in the report as the government entities do not separate receipts from companies per project.

Aimag and city non-financial information is included in the report.

4.3 RELIABILITY OF REPORTS AND DATA

The EITI requires an assessment of whether the payments and revenues are subject to credible, independent audit, applying international auditing standards (4.9.a).

As required by Terms of reference, the Independent Administrator should employ his /her professional judgement to determine the extent to which reliance can be placed on the existing controls and audit frameworks of the companies and governments.

Please refer to Appendix 7 for information of audited financial statements, receipt of management assurance letter and auditor assurance letter.

4.3.1 AUDIT AND ASSURANCE BACKGROUND OF MONGOLIA

National Audit Office of Mongolia (MNAO) is the supreme audit institution of Mongolia. MNAO is a member of INTOSAI and complies with standards issued by the organization.

MNAO carries out financial audit of Ministries, Government agencies and state owned entities and audit on Government consolidated financial statements and reports to State Great Hural. As mentioned in the audit report on Government consolidated financial statements of 2015, audit qualifications were given on five findings. One of the findings is related to Erdenes Mongolia LLC's opening balance of financial statements were expressed with a difference of 123 billion MNT.

Sub-National government organizations (aimag and soums) should be audited by MNAO audit office in local per every financial year.

Also MNAO in charges of audit of annual financial statements of stated owned entities; however it is allowed to appoint other private audit firms to carry the audit out on behalf of them, in practise it is common. These auditing firms comply with International Standards on Auditing.

Private companies should prepare its financial statements in accordance with IFRS as defined in the Article 4.1 of the Accounting Law of Mongolia. If the total sales income or net assets exceeds certain threshold, it is required by law that all companies shall be audited by external auditing firms.

4.3.2 PROCEDURES

Government entities, SOEs and extractive companies are required to enter its information to E-reporting system. If necessary, any additional information shall be provided to Independent Administrator as requested.

The reporting organizations are responsible for its reported amounts to assure the reliability and accuracy of the information.

As below mentioned, reporting organizations have the obligation to provide assurance on the reliability of its given information to Independent Administrator.

4.3.2.1 *Government Ministries and Agencies*

It is agreed by MSWG on “management representation letter will be provided in written by reporting government entities/agencies as an assurance for its reliability of reports and information” during the discussion of inception workshop in 2015.

We would like to recommend that the audit should be carried out on EITI reports in e-reporting system entered by State organizations. In order to reflect necessary actions for auditing in the MNAO’s 2017 Year Programme, it is needed to organize meeting with Working group and MNAO and discuss how to reflect it on a beginning (January) of 2017.

4.3.2.2 *State-owned entities*

Executive management of each reporting SOEs should provide assurance for their information in written representing its Board of Directors. In addition, audited financial statements shall be provided by SOEs respectively as agreed with MSWG.

Please refer to Appendix 7 for response from SOEs for detailed information and Appendix 19 for response of audited financial statements of SOEs.

In addition, auditor letters are requested from SOEs to ensure that “EITI reports are agreed with audited financial statements, which are audited in accordance with ISA and expressed true and fair”.

Please refer to Appendix 7 for response from auditor letters of SOEs.

4.3.2.3 *Companies*

Executive management of companies should provide assurance for their information in written representing its Board of Directors. And each company should provide audited financial statements as agreed with Working Group.

Please refer to response from companies in Appendix 19, submission statistic of audited financial statements from companies in Appendix 19.

In addition, auditor letters are requested from SOEs to ensure that “EITI reports are agreed with audited financial statements, which are audited in accordance with ISA and expressed true and fair”.

Please refer to Appendix 7 for response from auditor letters of private companies.

5 RESULTS OF THE RECONCILIATION

5.1 RECONCILIATION RESULTS

5.1.1 SUMMARY OF FLOWS INITIALLY REPORTED

Certain flows reported by companies have been included in this report as “declared flows” – i.e. they have not been reconciled. These flows are described in Section 4.2.3. This section deals only with the flows which the MSG agreed should be reconciled.

The flows initially reported were:-

	Government (MNT million)	Extractive Companies (MNT million)	Net Initial Differences (MNT million)	%
SOEs	396,422	374,120	22,302	
Private companies	1,041,604	760,419	281,185	
Total	1,438,027	1,134,539	303,487	21.10%

The process of reconciliation highlighted main areas in the initial differences above where discrepancies arose:-

1. Company or Government over/under reported the payment/receipt, or did not report a payment/receipt.
2. 76 companies did not report initially, giving rise to an initial difference of MNT 267.2 billion.
3. Payments/receipts were reported in the wrong category
4. There were errors due to timing differences

These areas are discussed in more detail later in this section (5.2).

5.2 UNRESOLVED DIFFERENCES AND NON-REPORTING COMPANIES

5.2.1 INITIAL DIFFERENCES

5.2.1.1 Over/under reporting

The data was entered into e-reporting system by companies or government incorrectly which is the one of the main reasons for the initial differences noted in the reconciliation.

The Ministry of the Environment, Green Development and Tourism of Mongolia should report In-kind contribution at rate of 50% to the Environmental Protection Special Account and the Ministry of Labour should report payments for recruiting foreign experts and workers. However these two government organizations did not enter their receipt into e-reporting system, giving rise to differences of MNT 0.7 billion on the 50% payments to the environmental protection fund and MNT 5.1 billion on payments for recruiting foreign experts and workers.

5.2.1.2 Companies not reporting initially

76 companies did not initially provide payments in the MEITI E-reporting system, giving rise to an initial difference of MNT 267.2 billion..

The companies where significant initial differences arose are:-

Registration No.	Company name	Government (MNT billion)	Company (MNT billion)	Initial difference (MNT billion)
2075385	Petrochina Daqing Tamtsag LLC	175.09	-	175.09
5106567	Senj Sant LLC	20.42	-	20.42
2008572	Baganuur LLC	10.44	-	10.44
5435528	Erdenes Tavan tolgoi JSC	9.73	-	9.73
5084555	Southgobi Sands LLC	8.18	-	8.18
5199077	Usukh Zoos LLC	6.49	-	6.49
2027194	Erel LLC	5.43	-	5.43
2051303	Darkhan Metallurgical Plant LLC	4.10	-	4.10
2016656	Tavantolgoi JSC	2.23	-	2.23
2705133	Entrée LLC	1.91	-	1.91
2808676	BUTI LLC	1.51	-	1.51
2869594	Alshaa Khairhan LLC	1.49	-	1.49
2641984	Cement Shohoi LLC	1.14	-	1.14
2057573	Max Impex LLC	1.05	-	1.05
5796121	Mongolia Gladwill Uvs Petroleum LLC	0.93	-	0.93
5002486	Jin Hua Ord LLC	0.85	-	0.85
2699869	Metall Opt LLC	0.72	-	0.72
2113023	Zuunnaiman suvraga LLC	0.70	-	0.70
5382475	Yushenming LLC	0.68	-	0.68
2743744	Monwolfram LLC	0.67	-	0.67
	Other	13.45		13.45
Total		267.20		267.20

5.2.1.3 Reported in wrong category

In a number of cases, government and companies reported amounts under an incorrect heading – for instance, VAT paid to the Customs Office was reported as Customs Tax; or Customs Service Fee was reported as Customs Tax. Royalty fees transferred to sub-national account were recorded in the national account category.

Identifying and correcting such misclassifications does not change the total amount reported by government or by companies and does not affect the total net discrepancies. The first stage of the reconciliation was to identify these mis-reported amounts and make the necessary amendments to the database.

5.2.1.4 Timing differences

Oyu Tolgoi LLC paid CIT and Royalty fee in advance before FY2015. In 2015, Oyu Tolgoi considered settling the advance payment against its tax due, but Government considered it as payment in 2015 on cash. This resulted in a difference of MNT 92.5 billion.

5.2.2 UNRESOLVED DIFFERENCES

Net unresolved differences amounted to MNT 112 million.

(MNT millions)

	Initial	Reconciliation	After reconciliation
Government reported	1,438,027	(44,462)	1,393,565
Company reported	1,134,539	257,499	1,392,038
Companies reported more than Government	25,730	327,617	353,348
Companies reported less than Government	(329,218)	(25,658)	(354,876)
Net unreconciled difference	(303,487)	301,959	(1,528)
Less: companies which did not send reconciliation information templates	-	1,640	1,640
Final net unreconciled difference	(303,487)	303,600	112

The table below shows separately the total amounts reported by government where these were more than those reported by companies (column A); and the total amounts reported by government where these were less than those reported by companies (column B).

MNT millions

Flows	Over/(under) reported by government	
	A	B
Corporate income tax	0	78
Customs tax	0	83
VAT	0	350
Fee and extra fee for exploitation and exploration of mineral resources	0	64
Licence fee for exploitation and exploration of mineral resources	0	752
Payment for deposit, exploration of which was carried out by the Government	0	5
Payment for recruiting foreign experts and workers	(17)	0
Social and health insurance charges paid from entity	0	235
Customs service fee	0	4
Penalty	(11)	0
Recovery payment	0	0
In-kind contribution at rate of 50% to Environmental protection special account	(14)	0
Others	(8)	0
Real estate tax	(5)	0
Tax on vehicles and self-moving mechanisms	(27)	0
Land fee	(53)	0
Fee for water use	(15)	0
Fee for use of mineral resources of wide spread	0	8
Payment for recruiting foreign experts and workers	(5)	0
Penalty	(12)	0
In-kind contribution at rate of 50% to Environmental protection special account	(1)	0
Others	0	67
Donation to Government organizations	0	52
Net unreconciled discrepancies	(168)	1,696

The largest discrepancies which have not been reconciled are as follows:-

MNT millions				
Company	Flows	Over/(under) reported by government		Explanation
Darkhan Metallurgical Plant LLC	Land fee		25	
Khudererdene LLC	In-kind contribution at rate of 50% to environmental protection special account		13	
Black Mount Mining LLC	License fee for exploitation and exploration of mineral resources		320	Not reported company
Galaxy Mining LLC	License fee for exploitation and exploration of mineral resources		242	Not reported company
MKMN mining LLC	License fee for exploitation and exploration of mineral resources		157	Not reported company
Gurvan Bogdiin Nuruu LLC	VAT		99	Not reported company
Gurvan Bogdiin Nuruu LLC	Customs tax		47	Not reported company
Energy-Empire LLC	Customs tax		23	Not reported company
Gan-Ilch LLC	VAT		145	Not reported company
Energy-Empire LLC	VAT		91	Not reported company
Gan-Ilch LLC	Corporate income tax		73	Not reported company
Ankhai Internashnl LLC	Fee and extra fee for exploitation and exploration of mineral resources		56	Not reported company
Gurvan Bogdiin Nuruu LLC	Social and health insurance charges paid from entity		61	Not reported company
Energy-Empire LLC	Social and health insurance charges paid from entity		18	Not reported company
Energy-Empire LLC	Social and health insurance charges paid from entity		110	Not reported company
Galaxy Mining LLC	Social and health insurance charges paid from entity		25	Not reported company
Ankhai Internashnl LLC	Social and health insurance charges paid from entity		29	Not reported company
Ankhai Internashnl LLC	Customs service fee		35	Not reported company
Energy-Empire LLC	Others-National		56	Not reported company
Mongolyn Alt MAK LLC	Tax on vehicles and self-moving mechanisms	(41)		
Darkhan Metallurgical Plant LLC	Land fee	(25)		
Bayan Airag Exploration LLC	Payment for recruiting foreign experts and workers	(23)		
Mongolyn Alt MAK LLC	Real estate tax	(20)		
Hos-Has LLC	Penalty	(11)		
Khudererdene LLC	In-kind contribution at rate of 50% to environmental protection special account	(13)		
Other differences		(35)	70	
Total differences		(168)	1,696	

5.2.3 NON REPORTING COMPANIES

Of the 202 companies selected for inclusion in the reconciliation from initial government receipts recorded on the E-reporting system, 8 companies did not report any payments to government either on the E-reporting system or using the templates we sent to them, despite follow up by both the MEITI Secretariat and the Independent Administrator.

Total receipts reported by government in respect of these 8 companies were MNT 1,640 million.

The companies which have not reported are as follows:

#	Registration No.	Company name	Government reported receipt (MNT million)	Comments
1	2863847	Ankhai International LLC	127	The licence of the company has transferred in 2016.
2	5477301	Blakemount Mining LLC	320	The contact address is not reachable.
3	5584469	Galaxy Mining LLC	267	The company replied that it closed down.
4	2544695	Gan-Iich LLC	333	The company responded that core activity of our company is not mining.
5	4000617	Energy Empire LLC	195	The mining locates in Ulaangom, Uvs aimag. Relative of director has responded once and no more contact was reachable.
6	5746035	SSGP LLC	34	Only one contact number was found, but it is not reachable.
7	5287227	MKMN Mining LLC	157	Contact address was not found
8	5331544	Gurvanbogdiin Nuruu LLC	207	No operation was carried out in respect of licence.
Total			1,640	

Assuming that the amount received by government was as reported above, thereceipts from these companies are not material, individually or in total, to the 2015 reconciliation. Nevertheless, we recommend that there is follow up with each company to establish the reason for no reporting and to ensure that they will report if selected for inclusion in future EITI reconciliations.

5.3 RECONCILIATION RESULT

5.3.1 NATIONAL FLOWS

Cash Flow Stream	Originally lodged			Adjustments		Final reconciliation		
	Government	Company	Difference	Government	Company	Government	Company	Difference
	AFS	AFS	AFS	AFS	AFS	AFS	AFS	AFS
Corporate income tax	259,824	202,784	57,040	(43,187)	13,775	216,637	216,559	78
Customs tax	29,534	43,169	(13,635)	3,215	(10,503)	32,749	32,666	83
VAT	128,035	74,157	53,878	(32,346)	21,182	95,689	95,339	350
Excise tax on vehicle's gasoline and diesel fuel	32	2	30	-	30	32	32	-
Tax on vehicle's gasoline and diesel fuel	-	-	-	-	-	-	-	-
Fee and extra fee for exploitation and exploration of mineral resources	593,167	535,353	57,814	(49,304)	8,446	543,863	543,800	64
Licence fee for exploitation and exploration of mineral resources	21,893	11,905	9,988	111	9,347	22,004	21,252	752
Payment for deposit, exploration of which was carried out by the Government	2,274	1,639	635	38	668	2,312	2,306	5
Bonus after signing contact /only year of contact/	593	-	593	-	593	593	593	-
Payment for recruiting foreign experts and workers	-	5,140	(5,140)	16,556	11,433	16,556	16,574	(17)
Bonus for commencement of production	-	-	-	-	-	-	-	-
Bonus for increases in production under Product Sharing Agreement	-	-	-	-	-	-	-	-
Licence fee for exploration and exploitation of petroleum	2,014	1,887	128	876	1,003	2,890	2,890	-
Fees for increases in size of exploration and exploitation area of petroleum	-	-	-	-	-	-	-	-

Cash Flow Stream	Originally lodged			Adjustments		Final reconciliation		
	Government	Company	Difference	Government	Company	Government	Company	Difference
	AFS	AFS	AFS	AFS	AFS	AFS	AFS	AFS
Fees for transferring rights and duties of Product Sharing Agreement	-	76	(76)	76	-	76	76	-
Social and health insurance charges paid from entity	118,769	93,426	25,343	685	25,793	119,454	119,220	235
Payment for air pollution	12,171	10,507	1,664	1	1,665	12,171	12,172	(0)
Customs service fee	11,653	16,437	(4,783)	18,710	13,923	30,364	30,360	4
Service charges for order of exploration area of petroleum	-	-	-	-	-	-	-	-
Bonus for training	1,212	624	588	40	629	1,253	1,253	-
Fee for supporting field office according to product sharing agreement	1,205	615	591	61	652	1,267	1,267	-
Dividends on state property	-	-	-	-	-	-	-	-
Deposit payments paid to Government	-	-	-	-	-	-	-	-
Income per Government according to nuclear energy law	-	-	-	-	-	-	-	-
Petroleum income per Government according to product sharing agreement	160,629	9,638	150,991	-	150,991	160,629	160,629	-
Of which: Royalty	21,385	3,231	18,154	-	18,154	21,385	21,385	-
Penalty	-	20,063	(20,063)	6,822	(13,229)	6,822	6,834	(11)
Recovery payment	-	242	(242)	196	(46)	196	196	-
In-kind contribution at rate of 50% to Environmental protection special account	-	678	(678)	480	(184)	480	494	(14)
Others	-	234	(234)	104	(122)	104	112	(8)
Total of National flows	1,364,391	1,031,806	332,585	(76,865)	254,200	1,287,526	1,286,007	1,519

5.3.2 SUB-NATIONAL FLOWS

Cash Flow Stream	Originally lodged			Adjustments		Final reconciliation		
	Government	Company	Difference	Government		Government	Company	Difference
Real estate tax	16,274	15,063	1,211	(6)	1,210	16,268	16,273	(5)
Tax on vehicles and self-moving mechanisms	647	344	303	(121)	208	526	553	(27)
Land fee	11,401	13,080	(1,679)	262	(1,365)	11,662	11,716	(53)
Fee for water use	29,847	27,686	2,161	1,089	3,265	30,936	30,951	(15)
Fee for water pollution	895	-	895	(867)	28	28	28	(0)
Fee for use of mineral resources of wide spread	2,060	1,192	868	(1,268)	(408)	792	784	8
Payment for recruiting foreign experts and workers	671	2,589	(1,918)	(201)	(2,114)	470	475	(5)
Fee for supporting field office according to product sharing agreement	2,296	109	2,187	(75)	2,112	2,221	2,221	-
Dividends on local state property	-	18	(18)	1,555	1,537	1,555	1,555	-
Penalty	232	515	(283)	173	(98)	405	416	(12)
Compensation	56	296	(240)	(29)	(269)	27	27	(0)
In-kind contribution at rate of 50% to Environmental protection special account	23	141	(118)	77	(39)	100	101	(1)
Others	4,781	397	4,384	(4,085)	233	696	630	67
Donations to Government agency	4,452	41,303	(36,851)	35,899	(1,003)	40,351	40,299	52
Total sub-national flows	73,635	102,733	(29,097)	32,404	3,298	106,039	106,030	9
Total national and sub-national flows	1,438,027	1,134,539	303,487	(44,461)	257,498	1,393,565	1,392,037	1,528

6 OTHER MATTERS

6.1 IN KIND REVENUES

The information reported by governmental organizations and companies was compared. In total, non-fiscal donations and supports amounting to MNT 31.9 billion were paid by the mining companies to the governmental organizations. Please see the Chapter 6.5 for extended information.

Oyu Tolgoi LLC transferred its ownership of the overhead power line worth of 30.6 billion MNT to the SOE `National Network of Power Transfer` free of any payment and it constitutes 96% of total non-fiscal revenues of 2015.

This non-fiscal revenue donated by Oyu-Tolgoi LLC was reconciled relying on the information given by Nomintungalag Yo, officer of the Financial and State Fund Division of the Governor's Office of Umnugovi province, the information delivered by the manager for Registration and Report Bat-erdene N. of Oyu Tolgoi LLC, the Agreement to transfer the ownership of Power Transfer Line, the VAT receipt (№15396) related to December 31, 2015 and the Resolution 233 `About exemption of VAT` issued by the Mongolian Minister for Finance on October 21, 2013.

6.2 INFRASTRUCTURE PROVISIONS AND BARTER ARRANGEMENTS

We requested companies and government entities to provide information about investments in infrastructure and any barter exchanges made in 2015.

The following table summarises the information received:-

#	Registration number	Companies	Investment	Invested dates	Information of agreements	Investment /Contract amount/ /mln MNT/
1	2855119	Bold Tumur Eruu gol	Repair of pure and wastewater line	2015/09/29	Repair of pure and wastewater line of Eruu and Bugant villages	Bugant village, Eruu soum, Bayangol fund 100
2	2855119	Boldtumur Eruu gol	Design of engineering line	2015/10/22	Eruu village, Selenge province, design of engineering line	Eruu village, Zofir LLC 144
3	2657457	Oyu Tolgoi	220 kW Power line	2013/05/13	Transfer of the possessed power line to GOM, free of payment	SOE `Power, Heat network` and Oyu Tolgoi LLC 30,633
4	2657457	Oyu Tolgoi	Power line	2015/07/16	Fund to build power line for Khanbogd village	`Power network of South Region` SOE and Oyu Tolgoi LLC 270
5	5452503	ML Tsahiurt ovoo	Road repair	2015/06/29	Repair the road in Sukhbaatar province	Lans construction LLC 2,120

#	Registration number	Companies	Investment	Invested dates	Information of agreements	Investment /Contract amount/ /mln MNT/
6	2766337	Donshen oil (Mongolia)	Construction-assembly work of substation	2015/04/17	Construction of overhead line 6kW for boreholes mining, 10 ATP with 100 kWa and 50kW, substation, overhead line 6kW with 2,5 km length	180
7	2766337	Donshen oil (Mongolia)	Connect optic cable of internet to the central server	2015/05/08	Connect 200 m optic cable of internet to the central server	2
8	2766337	Donshen oil (Mongolia)	Equipment for network extension	2015/01/01	Extension of the sharing network 35/6kW, Zuunbayan substation	45
9	2766337	Donshen oil (Mongolia)	Replacement of transformer	2015/01/14	Replace transformer of 6kW output voltage	3
10	2766337	Donshen oil (Mongolia)	Road work for mine	2015/01/01	Advance 46.200.000 MNT for cover of 18,5 km road	257

Source: Information delivered by the extractive companies

In brief, these infrastructure investments were made as follows:-

Investment of Oyu Tolgoi LLC

In 2015 Oyu Tolgoi LLC transferred the overhead power line with 96 km length between Oyu Tolgoi mine in Umnugovi province and Mongolia-China border that was constructed at the expenses of Oyu Tolgoi LLC to the SOE 'National Network of Power Transfer' and started to be responsible for its maintenance.

The power line of 220 kW with 96 km length from Umnugovi province to the Mongolia-China border was constructed in 2011 and started to be used since July, 2012.

According to the 'Collaboration Agreement for the power sector of the Southern Region' signed in August, 2014 between Mongolian Government and Oyu Tolgoi LLC, this company transferred the power transmission line to State ownership without any payment.

ML Tsahiurt Ovoo

This company plans to transport the products produced in the mine located in Uulbayan village area of Sukhbaatar province by 300 km auto road from this mine to Bichigt border checkpoint. However, construction of this road was not completed currently and transportation is carried out by dirt road. When construction has been completed, it will be possible to use this road for transport. Therefore, the road repair agreement of 2.1 bln MNT was signed with Lans Construction LLC.

6.3 SOCIAL EXPENDITURES

The expenditures spent by the companies for well-being of a community are referred to as social expenditures. Most of these expenditures are devoted for the local residents residing near the mines which spend the money. The companies depicted in Appendix 30 reported their investments made in 2015 for community and their spending from all 202 companies which were involved to reconciliation.

Oyu Tolgoi LLC

According to the Minerals Law, Article 42.1 a holder of mineral licence shall sign an agreement with local governing organization covering the issues to develop infrastructure, increase work places, protect environment, mine a deposit and construct a plant.

In April, 2015 Oyu Tolgoi LLC ('OT') signed the Collaboration Agreement with the villages Khanbogd, Manlai, Bayan-ovoo and Dalanzadgad of Umnugovi province.

As set out in the Investment Agreement, OT LLC is an Investor and OT Project is located in Umnugovi province.

The Fund to Support Development ('FSD') was established in order to support the sustainable development of economy and community of Umnugovi province and of the partnering villages and Oyu Tolgoi LLC will finance this Fund and support any projects and programs contributing to the sustainable development of the local economy and community.

According to this Agreement OT LLC will make an annual payment to the FSD of USD 5 mln (USD 5,000,000) (or a proportionate amount during a shorter period) after establishment of FSD, and the payment will be adjusted each year under the mechanism described below to fund and implement the projects and programs.

An amount of financial support to be granted for one particular year will be estimated by the following formula from January 1, 2017:

$$\text{Year_finance.support}_t = 5,000,000 \text{ USD} \times \frac{\text{HUI}^{\text{USA}}}{\text{HUI}^{\text{USA}}_{\text{basic period-July, 2015}}}$$

$$\text{HUI}^{\text{USA}}_{\text{basic period-July, 2015}}$$

Year_Finance.support_t is an amount of financial support to be granted by OT LLC during the particular year.

HUI^{USA}_{t-1} is the general level of July, 2015 of the Consumer Price Index (t-1) without USA quarterly regulation issued by Labor Statistics Committee of USA.

HUI^{USA}_{basic period = July, 2015} is the general level of July, 2015 of the Consumer Prices Index (t-1) without USA quarterly regulation issued by Labor Statistics Committee of USA.

6.4 TRANSPORTATION REVENUES

Where revenues from the transportation of oil, gas and minerals are material, the government and state-owned enterprises (SOEs) are expected to disclose the revenues received. We did not identify any material transportation revenues for government or SOEs in the Mongolian extractive industries.

"Ulaanbaatar Railway", a Mongolian-Russian joint venture company, carries mineral freight and the Policy and Planning department of Ministry of Road and Transport provided us with information on mineral transportation in 2015:

№	Freight name	Number of wagons / by pieces /		Freight / by thousand ton /	
		2014	2015	2014	2015
1	Coal	101,010.00	98,758.00	6,596.19	6,435.14
2	Fuel	3,362.00	2,435.00	200.75	142.50
3	Cement	22,866.00	14,749.00	1,473.00	960.10
4	Gravel	12,147.00	8,729.00	730.75	555.60
5	Flour spar	4,990.00	4,350.00	321.95	278.29
6	Copper concentrate	8,788.00	9,237.00	583.85	611.76
7	Iron ore	70,575.00	61,748.00	4,823.90	4,240.52
8	Zincum ore	1,640.00	1,400.00	98.71	84.28
9	Black metal	5,305.00	2,865.00	284.34	149.59
10	Ferrous metal	311.00	375.00	11.25	16.70
Total		230,994.00	204,646.00	15,124.69	13,474.48

Source: Ministry of Road and Transport

The Department of Policy and Planning under the Ministry of Road, Transport Development provided the following information about the carried out transportation in 2015 by the companies which conduct the regular transporting between countries.

Routes	Carried freight Weight /thousand tons/	Freight turnover /thousand tons km/	Income /thousand MNT/
Route 1: TavanTolgoi in Tsogttsetsii soum of Omnogobi aimak - Ukhaa Khudag mine - Gants mod port	3,578.1	841,142.7	43,897,243.4
Route 2: Oyu Tolgoi at Khanbogd soum of Omnogobi aimak - Gants mod port in Gashuun Suhait soum	724.8	92,245.0	19,791,800.7
Route 3: Ovoot Tolgoi MAK in Gurvan Tes soum - Sekhee port in Shivee khuren soum	3,089.7	185,528.9	17,796,649.0
Route 4: Ailbayan mining in Khuvs gul soum of Dornogobi aimak - Khang-Mandal port	393.1	37,099.9	5,895,960.0
Route 5: Tamsagiin Sav Gazar Dornod aimak - Bichigt Port Erdenetsagaan soum, Sukhbaatar aimak	598.3	490,620.8	57,965,047.8
Route 6: Tamsagiin Sav Gazar Dornod aimak - Bayankhoshuu port Khalkh soum	313.1	200,357.8	30,329,155.9
Route 7: Khushuut mining Darvi soum Khovd aimak - Yarant-Takeshikin port Bulgan soum Khovd aimak	217.9	76,268.2	11,735,489.2
Route 8: Tayannuur mining at Tseel soum Gobi-Altai aimak - Burgastai-Laoemo port in Bugat soum Gobi-Altai aimak	816.0	83,191.9	6,936,382.5
Grand total	6,278.6	1,190,761.4	153,884,111.1

Source: Ministry of Road and Transport

6.5 DONATIONS

The extractive companies reported fiscal and non-fiscal donations and support to the Ministries and the local organizations in 2015 but there were discrepancies between amounts reported by government entities and companies which required reconciliation.

Only those donations and supports which the MSWG determined were mandatory reporting items were reconciled; amounts declared on a voluntary basis were not reconciled. The MSWG requested that information on donations made to NGOs was combined. Please see the Appendix 11b for more details concerning donations.

98 companies reported 40.3 bln MNT as fiscal and non-fiscal donations. 95% of all donations and supports were granted by five companies as Oyu Tolgoi LLC, Boroo Gold LLC, 'GBNB' LLC, 'Shin Shin' LLC and MonEnCo LLC.

Total donations and supports classified by purposes as follows after reconciliation:

Purpose	Donation and support amount (in million tugrik)	%
Education	1,934	5%
Infrastructure	31,220	77%
Society	337	1%
Culture	5,777	14%
Health	547	2%
Other	486	1%
Total	40,301	

Source: The information is confirmed by both Companies and Government organizations.

Total donations and supports classified by recipients were as follows after reconciliation:

Recipients	Donation and support by cash (in million MNT)	Donation and support by non-cash (in million MNT)	Total (in million MNT)	%
Soum and Districts	1,282	884	2,166	5.4%
Ministry and agencies	35	9	44	0.1%
Aimags and capital	7,063	387	7,450	18.5%
State owned organization	8	30,633	30,641	76.0%
Reconciliation amount*	8,388	31,913	40,301	

Source: The information is confirmed by both Companies and Government organizations.

Total donations and supports classified by aimags were as follows after reconciliation:

Recipients	Donation and support by cash (in million MNT)	Donation and support by non-cash (in million MNT)	Total (in million MNT)	%
Bayan-Ulgii	81	-	81	0.2%
Bayankhongor	187	-	187	0.5%
Bulgan	285	150	435	1.1%
Gobi-Altai	12	32	44	0.1%
Darkhan	3	-	3	0.0%
Dornogobi	5	-	5	0.0%
Dornod	112	273	385	1.0%
Dundgobi	9	3	12	0.0%
Uvurkhangai	3	-	3	0.0%
Umnugobi	5,902	31,048	36,950	91.7%
Sukhbaatar	179	-	179	0.4%
Selenge	89	196	285	0.7%
Tuv	287	206	493	1.2%
Uvs	49	4	53	0.1%
Ulaanbaatar	982	1	983	2.4%
Khovd	113	1	114	0.3%
Khuvsgul	7	-	7	0.0%
Khentii	82	-	82	0.2%
Total	8,387	31,914	40,301	

6.6 REHABILITATION INFORMATION

6.6.1 STATE POLICY FOR PROTECTION AND RECLAMATION OF THE ENVIRONMENT

The following policies on environment protection and reclamation were set out in the State Policy for the minerals sector during 2014-2025:

- Stages of an extractive and processing industries shall have the least negative impact upon human health and keep an ecological balance of environment;
- State-owned companies shall operate as a general contractor and implement a partnership between State and private sector;
- The standards and procedures of mine reclamation and mine closure shall be consistent with international best practice;
- Extractive and mineral processing industries will avoid the use of fresh underground water as much as possible, replacing it by surface water, recycling used water according to the respective laws, using grey water for household demand of the mining sector and employing modern and up to date technologies;

Summary of the Procedures and Resolutions related to environment protection and reclamation which were enacted in 2015:

No	Resolutions	Names of the Procedures
1	Resolution No. 120 of Mongolian Government dated March 30, 2015	Procedure to terminate the licences which have been allocated in the zones where the stream of river is created and take the related measures for the licensed areas where a mining was commenced within an ordinary-protected zones with water funds and ensure a reclamation`
2	Joint Resolution No. a-28/a-69 by the Minister for Environment and Green Development and the Minister of Mining, March 16, 2016	`To approve the Procedure to receive the results of reclamation conducted in the areas which were exposed to prospecting, exploration, mining operations of petroleum and unconventional petroleum`
3	Resolution A/419 by the Minister for Environment and Green Development dated December 16, 2015	`To approve the Model of Act for receipt of the reclaimed areas`
4	Resolution A/138 by the Minister for Environment and Green Development, dated March 30, 2015	`Methodology to carry out technical and biological reclamation of the areas destroyed by the mining operations`

6.6.2 SPECIAL ACCOUNT FOR ENVIRONMENT PROTECTION

According to information from the Ministry of Environment and Green Development, 105 companies transferred 50% of their reclamation expenses 1,027.5 million MNT to the Special Account in 2015. There was no expenditure from this Account in 2015; at 31 December, 2015 the balance was 10, 207 mnllion MNT as below:

Year	Revenue million MNT	Expenses million MNT	Remaining sum million MNT
2006	22	-	22
2007	612	-	634
2008	566	-21	1 179
2009	385	-126	1 439
2010	942	-1	2 380
2011	1 216	-5	3 590
2012	2 014	-16	5 588
2013	1 545	-225	6 908
2014	2 273	-1	9 180
2015	1 027	0	10 207
Total	10 602	-395	

Source: Information by the Ministry for Environment and Green Development

In 2015 Erdenet Mining Corporation LLC transferred the highest amount of revenue to this Special Account and the companies listed below contributed 50.5% of all revenues collected to the Special Account for environment protection:

Names	Transferred amounts, thous. MNT	Percentage
Erdenet Mining Corporation LLC	211,500	20.6%
Capcorp Mongolia LLC	113,791	11.1%
Achit-Ikht LLC	41,994	4.1%
Special Mining Service LLC	30,036	2.9%
Bayan LLC	27,243	2.7%
Taishen Development LLC	25,000	2.4%
Khur erdene baylag LLC	24,925	2.4%
Baganuur JSC	22,500	2.2%
Tsagaan Uvuljuu LLC	22,000	2.1%
Amount	518,989	50.5%

Source: Information by the Ministry for Environment and Green Development

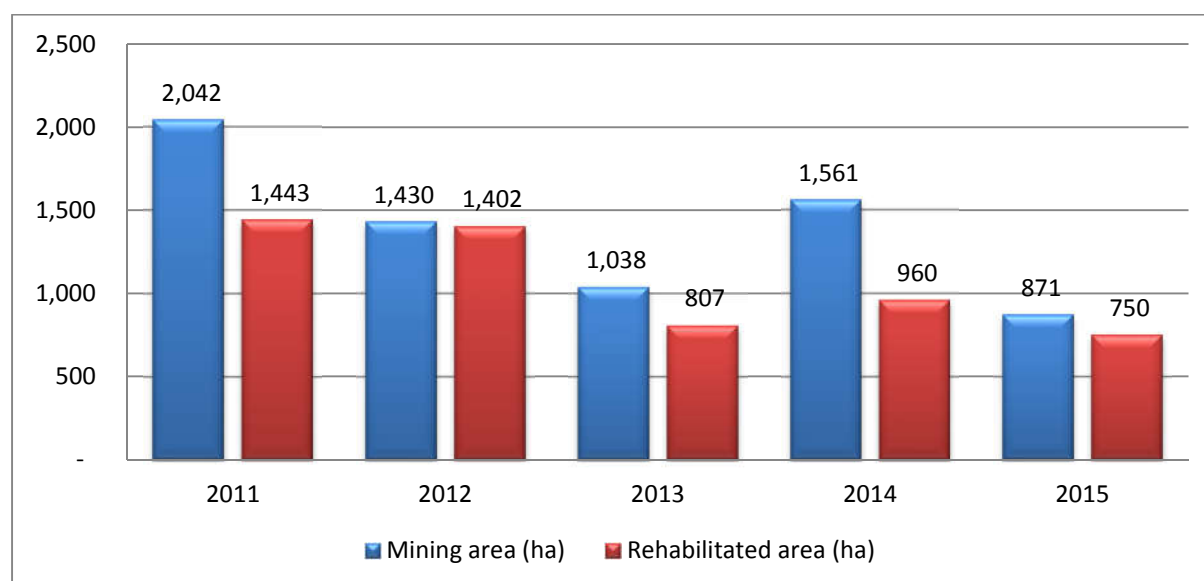
Please see Appendix 23 for information of all 105 companies which transferred 50% of their reclamation expenses or amount of 1, 027.5 mln MNT.

6.6.3 RECLAMATION OF MINING SECTOR, 2006-2015

The MRPA 2015 Minerals Statistic Report records that 871 hectares were covered by mining operations and 86% of them or 750 hectare areas have been reclaimed. The total expenses of reclamation in 2015 were 92,878 mln MNT³⁸.

Reclamation expenditure in the mining sector									
	Unit	Previous years	2010	2011	2012	2013	2014	2015	Total
Areas involved to mining	hectare	18 417	1 709	2 042	1 430	1 038	1 561	871	27 068
Reclaimed areas	hectare	13 170	1 533	1 443	1 402	807	960	750	20 065
Reclamation percentage	%	72%	90%	71%	98%	78%	61%	86%	74%
Reclamation expenses	Mln MNT	11 183	9 657	7 013	14 808	7 382	9 212	4019	92 878

The chart below sets out a comparison of the reclaimed areas with the areas involved to the mining operations during last 5 years:



Source: Statistics of MRAM

Please see the Appendix 26 for the list of companies which obtained licences for reclamation from the Ministry of Environment and Green Development.

Reclamation-related information for the reporting companies is included in Appendices 24 and 25.

³⁸Source: Monthly statistics of minerals by MRAM, September 2016

6.7 E-REPORTING SYSTEM

6.7.1 INTRODUCTION OF E-REPORTING SYSTEM

The united, e-information fund of EITI is a web-based system which has simplified EITI reporting and improved transparency by making the information available in one place.

The drive to develop an E-portal has come about after the publication of 9 EITI reports dating from 2006, when Mongolia became a member of EITI. Previously, significant effort was required to collect and manage the data collected, and the paper based systems were more open to technical errors and were difficult to access and interrogate. Therefore, the Project 'Implementation of E-reporting system of EITI' was implemented by the Mongolian 'Interactive' LLC during 2014-2015 with the financial support of the European Bank of Reconstruction and Development, with technical assistance of Adam Smith International Institute for e-reporting of EITI Reports, to rapidly publish and disseminate information

The main deliverable from the E-reporting system is the construction of a single database containing extensive information related to the mining sector – for example, information on licences, production, sales, taxes paid and donations made -and any individual or organization has free access to the information.

The stages of E-reporting system:

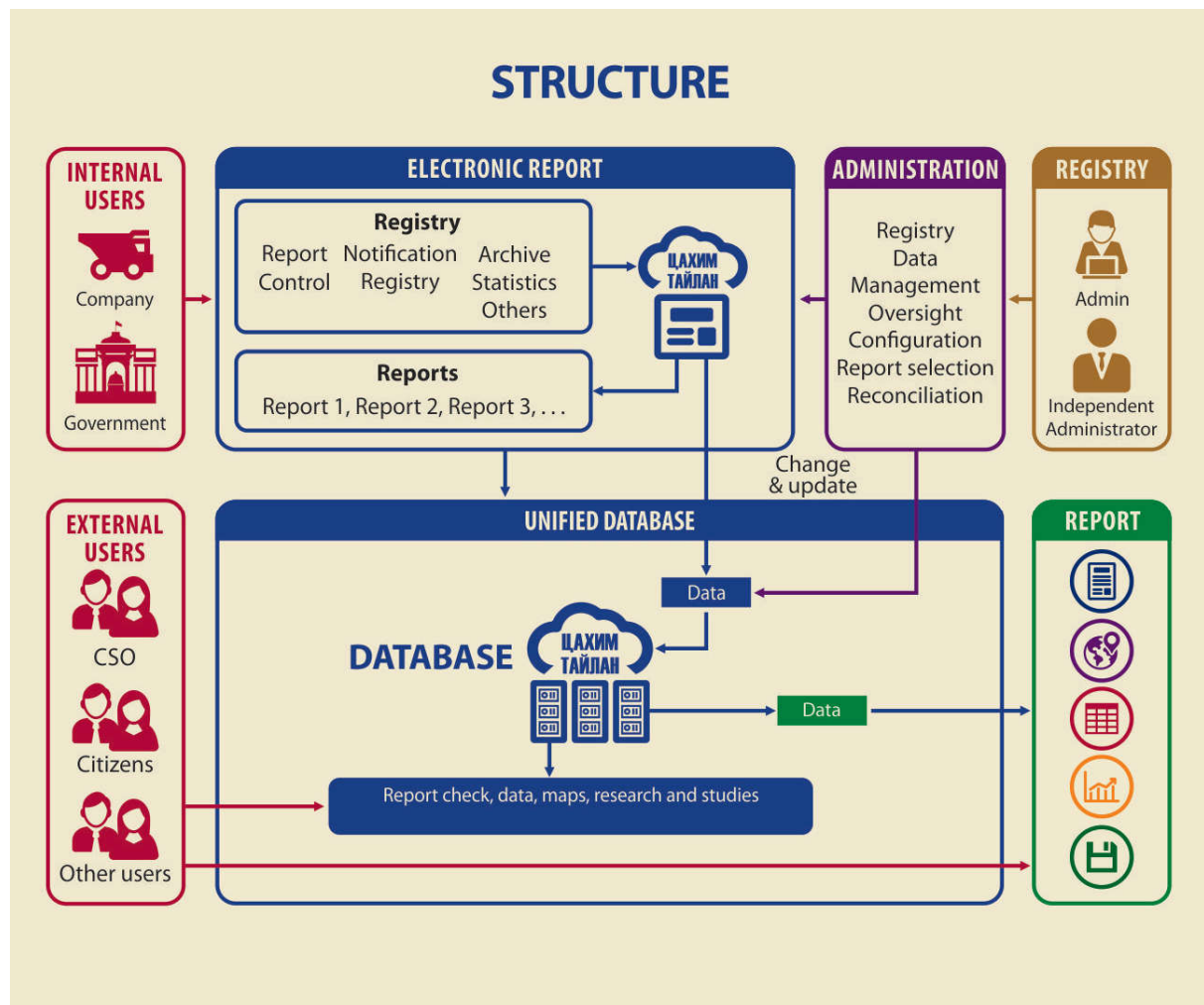
- The study of the system was commenced in 2013,
- The processing started from April, 2014 and successfully completed during 5 months,
- Started to receive EITI Reports of 2014 from January 1, 2015,
- Actions of 2nd stage of the Project commenced in September, 2015 and continue to date.

The first National Forum of EITI held on November 5, 2015 made recommendations to extend the MEITI e-reporting system

The following advantages were created when EITI Reports started to be distributed by e-reporting system:

- Facilitated the stages to deliver reports and obtain reports saving time, paper and mitigating bureaucracy,
- Made the processes to combine, compare and verify the reports easier,
- Opportunity to be connected to other sources of information and share information,
- Information was consolidated in a single place and was easy to understand and obtain , resulting in increased information accessibility and openness.

The general structure of e-reporting system is depicted below:



6.7.2 CONDITION OF E-REPORTING SYSTEM

The operation of the MEITI E-reporting system has been monitored during the reconciliation process and no problems have been encountered. We observed that the recommendations proposed during the development and implementation stages have been implemented.

We have made recommendations for further improvements in section 7.2.6.3.

7 RECOMMENDATIONS

7.1 IMPLEMENTATION OF PRIOR YEAR RECOMMENDATIONS

The MSWG established a working group to review progress on implementation of recommendations made in previous EITI reports. The group's assessment on the implementation of prior years' recommendations is included as Appendix 31.

A summary of the implementation status of recommendations made in 2014 is set out in the table which follows.

Recommendations	Reference to 2014 EITI report	Result
To perform a comprehensive review of areas where the E-Reporting IT platform, related IT controls and the IT environment may be strengthened and improved.	6.2.1	In progress of implementation.
To involve the MSG and the Independent Administrator in determining the form and extent of contextual information to be collected electronically through the E-Reporting system, and in the design of the templates for collection of such information.	6.2.2	In progress of implementation.
To promote a better understanding by companies of the EITI requirements, reporting process and overall importance of the EITI.	6.2.3	In progress of implementation.
To consider how to implement at the government level a procedure for distinguishing EI business and revenue streams from other businesses performed by the same entity.	6.2.4	In progress of implementation.
To assess how to disaggregate revenue streams between projects where possible, in order to report at project level.	6.2.5	
Maintain and regularly update a database containing a complete and accurate list of contacts (including e-mail address, active phone numbers and physical addresses) for companies in the EI, and particularly those which are medium to large in size	6.2.6	In progress of implementation.
To provide clear, direct instructions and guidance for every item and revenue stream requested for reporting to the M.EITI secretariat in the E-Reporting system and subsequently.	6.2.7	In progress of implementation.
To place increased emphasis on the need for limited assurance on reported financial data and contextual information under the EITI process, and to highlight this to companies.	6.2.8	In progress of implementation.
To introduce a form of assurance over government reported data in the future and to strengthen the process in this area.	6.2.9	Not implemented.
To encourage SOEs to disclose all the information required by the EITI Standard, and to understand the barriers and limitations which may prevent such disclose.	6.2.10	Not implemented.
To improve the cadastre data available for viewing publically to allow visibility also in the above areas and to maintain information in the cadastre in line with the requirements of the EITI Standard such as application date, issuance and expiry dates.	6.2.11	Not implemented.
The Independent Administrator should be selected and involved in the process as early as possible	6.2.12	Not implemented.

7.2 RECOMMENDATIONS FOR FUTURE REPORTING

Arising from our work in preparing the current 2015 EITI report, we have a number of recommendations to improve the implementation of EITI in Mongolia.

7.2.1 PRODUCTION SHARING AGREEMENT NOT PUBLICLY AVAILABLE

We were unable to find a way to obtain public access to PSAs concluded in 2015, and accordingly requested from MRAM a copy of all PSAs concluded in 2015. At the date of writing, we have not received any PSAs.

The Independent Administrator for the 2013 EITI Report received a letter the Minister of Mining stating that there was no confidentiality issue affecting provision by the government of certain information requested, specifically

1. The signatories to each PSA
2. The beneficial interest of the Government of Mongolia in each PSA

There has been legislation passed in 2014, which we understand to provide that PSAs concluded after enactment of the legislation – i.e. PSAs concluded in 2015 - should be publicly available.

Recommendation

We recommend that The National Council raise this matter with the Minister of Mines, so that MRAM promptly makes publicly available all PSAs in accordance with the law.

7.2.2 LICENCE INFORMATION

7.2.2.1 Publication of licence information required by EITI

The publicly available information on licences does not meet Requirement 2.3.b of the EITI Standard.

Recommendation

We recommend that MRAM ensures that publicly available licence information at least complies with the minimum requirements of the EITI Standard (*recommendation made in previous years*).

7.2.2.2 Consistent licence information required from MRAM cadastral department

MRAM also provided two summaries of licence movements:-

- iii. a summary of the number of licences in issue at the end of each year from 2010 to 2015
- iv. an analysis of the movement on exploration and exploitation licences during 2015, showing awards, terminations, transfers, and other changes

The change in licences between 2014 and 2015 differed between these two summaries, and did not agree to a separate list of licences at 31st December 2015 provided by MRAM. When asked, MRAM was unable to reconcile the movements.

Unexplained discrepancies of this nature give cause for concern and may indicate record keeping and control over licence information.

Recommendation

We recommend that MRAM ensures that information it discloses on licences is consistent and that the Working Group follow this matter up with MRAM.

7.2.3 SOE REHABILITATION LIABILITIES

The auditor of the Erdenes Mongol 2015 consolidated financial statements states in their opinion that the Group did not undertake a comprehensive assessment of the work required to discharge the rehabilitation obligations that its mining activities had given rise to as at 31 December 2015 and 2014 and that as a consequence the provision made did not comply with the relevant accounting standard (IAS37).

Rehabilitation of the environment during and after extraction activities is part of a company's good citizen responsibilities and the Group should have in place a comprehensive rehabilitation plan, both in fulfilment of its legal responsibilities and as an example of best practice to the industry.

Recommendation

We recommend that the Working Group and National Council should engage with the Mineral Resources Authority to ensure that all extractive SOEs have in place an appropriate and complete rehabilitation plan, fully costed, and that their future financial statements include rehabilitation costs in accordance with the relevant International Financial Reporting Standards.

7.2.4 SOE FINANCIAL MANAGEMENT

Several of the audit reports on the SOEs 2015 financial statements contained qualifications on the grounds of accounting differences; and the government auditor's report on the national accounts for 2015 contained a qualification in respect of a difference of MNT 123 billion in the Erdenes Mongol accounts.

The EITI requires an assessment of whether the payments and revenues are subject to credible, independent audit, applying international auditing standards. While there has been an independent audit of the SOEs, the outcomes referred to above suggest that financial controls in the SOEs require strengthening so that there is greater assurance on the figures which these SOEs report. The Working Group and National Council have an interest in ensuring that SOE data is reliable.

Recommendation

We recommend that the Working Group should discuss the qualifications on the audit reports with Ministry of Finance and the SOEs and confirm that there is a resourced and timebound action plan to make necessary improvements in financial control.

7.2.5 ASSURANCE

7.2.5.1 *Audit assurance: government*

The National Audit Office (MNAO) was not able to give any assurance on the government figures submitted for EITI because the additional work which would be required was not part of its workplan.

Recommendation

We recommend that in order to improve the assurance over the government EITI reports, the Working Group should engage with the MNAO so that the necessary resource and time to give an opinion on government EITI data can be incorporated in the workplan of the MNAO.

We note that in order to put this into effect for the next report, a dialogue will need to commence immediately, since the MNAO is currently preparing its workplan for 2017.

7.2.5.2 Audit assurance: companies

Of the 191 private companies included in the 2015 reconciliation, 120 companies did not provide audited financial statements. Both of these were determined by the Working Group to be a necessary part of obtaining assurance over the figures submitted by companies.

Among the non-compliant companies were two of the top 10 companies, which did not provide either a management letter or audited financial statements.

Recommendation

It is important that the level of compliance on these assurance points is improved. We recommend that the EITI Secretariat increase their engagement with companies to secure better compliance in the next EITI Report.

7.2.5.3 Management assurance

Of the 191 private companies included in the 2015 reconciliation, 45 companies did not provide the confirmation by the Board of Directors on the numbers submitted for EITI. Also, 1 SOE and all government entities have not complied with the Working Group's requirement for a letter from the Board of Directors.

Recommendation

It is important that the level of compliance on these assurance points is improved. We recommend that the EITI Secretariat increase their engagement with companies, SOEs and government to secure better compliance in the next EITI Report.

7.2.6 E-REPORTING SYSTEM

7.2.6.1 Use of E-reporting system by government and companies

During the Inception Phase, we noted that not all government entities and companies had entered their data on the MEITI E-reporting system. Of the entities selected for inclusion in the reconciliation, 2 government entities, 5 SOEs and 71 mining companies did not enter their data. There may have been other entities which were not considered for the reconciliation, which also did not use the E-reporting system.

While we were able to collect data from these non-compliant companies by means of templates, this mechanism is intended to have been replaced by the E-reporting system.

Recommendation

We recommend that the EITI Secretariat increase their engagement with companies, SOEs and government to secure better compliance in the next EITI Report; and that the Working Group considers whether sanctions for non-compliance may be required.

7.2.6.2 Non-extractive companies

During the company selection process for the reconciliation, we identified a number of companies on the MEITI E-reporting system which are not extractive companies.

Recommendation

We recommend that the EITI Working group review the companies using the E-reporting system in advance of each EITI Report to remove any non-extractive companies.

7.2.6.3 Recommendations for Information Technology of online-reporting system of EITI Mongolia

The operation of the MEITI E-reporting system has been monitored during the reconciliation process and no problems have been encountered. We observed that the recommendations proposed during the development and implementation stages have been implemented. However, the following recommendations are given to take attention on some issues in further.

Recommendation

The below recommendations and the recommendations mentioned in the bidding documents shall be concerned during full receipt of EITI Mongolia online system:

- Receive the system with the backup option
- Receive the handbooks needed for proper operations of the system (in particular, the handbooks of operating system installation, of the required security adjustments, adjustment of backup option and data bank installation)
- Receive authentic codes which will be required for further development of the system
- Prior to receive the system it needs to request to perform penetration test and stress test for the system from outside and inside

The below recommendations shall be concerned about security of EITI Mongolia online system:

- To supply the system with SSL certificate for application
- Regularly update operating system of the online reporting system
- Provide IP address solely for application by the users with administration rights, adjust application port and block other unnecessary ports
- Make the system capable to identify the applying and invasive information and block them.

The below recommendations are proposed to concern to secure the further, proper operations of the system:

- Determine the rights and duties of the users who will apply for online reporting system and include them to the procedure
- An agreement to sign with a company to install online reporting system shall accurately reflect the clauses about the necessary security, backup option, data protection from illegal copying, load regulation and the continuous operation of the system.

7.2.7 TIMING OF APPOINTMENT OF INDEPENDENT ADMINISTRATOR

(Repeat of 2014 recommendation)

The timing of the appointment of Hart Group and Ulaanbaatar Audit as the Independent Administrator was after most entities reported to the MEITI secretariat in the E-Reporting system. Earlier involvement would enable the Independent Administrator to fulfil the role more effectively, and to advise on areas such as the contents of reporting templates, the work flow, EITI reporting requirements, assurance over the data, instructions and guidance to be provided to reporting entities. This would improve the reconciliation process and information gathering and adherence to the requirements of the EITI Standard. Earlier involvement of the Independent Administrator should also help to bring the timing of publication of the MEITI Report forward.

Recommendation

The Independent Administrator should be selected and involved in the process as early as possible, in order to provide input to the report preparation. Ideally the Independent Administrator should be involved from late January, before decisions need to be taken about the contents of E-Report system templates

7.2.8 REPORTING AT PROJECT LEVEL

(Repeat of 2014 recommendation)

As noted in Section 4.2.9, the EITI Standard requires reporting at project level in certain circumstances. The 2015 Mongolian EITI Report does not contain this kind of disaggregation because both government entities and companies do not allocate revenue streams between projects.

Recommendation

It is recommended to assess how to disaggregate revenue streams between projects where possible, in order to report at project level.

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